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THE RECOVERY PROBLEM IN THE UNITED STATES

Presidential address delivered at the Fiftieth Annual Meeting of the American Economic Association, Atlantic City, New Jersey, December 28, 1937

The program of the American Economic Association this year is an experiment. Aside from the session this afternoon on Marxian economics, the program is entirely concerned with problems of savings and investment. The number of formal papers has been reduced to a minimum, while the number of round-table meetings has been greatly increased. My own part in the program is perhaps also in the nature of an experiment since I am going to discuss a problem of immediate practical importance, the problem of recovery in the United States. During the last four years, our recovery from the depression has been less complete than in many other countries, and now we seem to have taken the initiative in receding from such recovery as has been made. This unsatisfactory experience demands explanation, particularly in view of the presence of a variety of influences of a favorable character. The United States has been comparatively free from the hazard of war. Our domestic market is the largest free-trade market in the world. Undoubtedly, also, a larger proportion of the brains and energy of our people are devoted to business activities than in other countries—at least than in the countries of western Europe. Why, then, have we found it exceptionally difficult to restore and maintain anything approaching full use of our available resources of land, labor and capital?

Every great depression, as contrasted with minor cyclical recessions, presents a situation in which considerable and difficult shifts in the employment of labor and capital are required. This was the case in the seventies of the last century, for example; and now we have been confronted with the necessity of developing a situation in which there shall be an increased output of those manufactured goods and services for which there is an elastic demand—an increase sufficient to absorb all the unemployed labor attached to industry and also to draw considerable numbers from agriculture. Only then will the agricultural problem become readily manageable. Subjected to this test, the recovery which we have made is not impressive. Industries producing manufactured consumer goods have indeed made a fair recovery; but that recovery has been supported in part

by the temporary expedient of liberal government expenditure. Agriculture is doubtless in better position than four years ago, although its improvement rests upon the unsatisfactory and somewhat unstable foundation of resisted output. On the other hand, the industries producing capital goods have shown little sign of complete recovery, and such moderate recovery as has been made in rather laggard fashion has recently been reversed. Clearly it is the development of conditions under which there shall be a large and maintained increase in the demand for the products of the heavy industries that is required for recovery. Further expansion in the consumer-goods industries cannot take place upon a solid foundation unless it is supported by increased employment in the heavy industries.

It is sometimes said in business circles that nothing more than confidence is required to induce activity in the production of capital goods. This seems to me a most superficial view since it is at least quite possible, as has happened at times in recent years, that a mere wave of confidence will result in the creation of conditions which will speedily check expansion in this direction. A widespread advance in costs and prices, for example, in the products of the heavy industries under the favorable influence of a wave of confidence would not only be likely to check expansion, but would also create additional obstacles in the way of subsequent improvement. Much the same observation may be ventured regarding changes in, or the repeal of, the undistributed profits tax and the capital gains tax. They would seem to me to be minor obstacles, the removal of which, however desirable, would in itself be far from sufficient to bring about recovery.

At this point I cannot resist the temptation to mention another obstacle in the way of recovery that is also doubtless of secondary importance. I refer to the growing tendency to rely upon forecasts of business conditions in the determination of business policies. Were an individual to have his blood pressure and blood count taken at frequent intervals, surely a very bad psychological effect would result—similarly with business, when attention is constantly fixed upon the gyrations of security quotations on our stock exchange, and upon the various indices of business conditions supplied by numerous statistical agencies and financial soothsayers. This habit, I am confident, contributes not a little to accentuate business fluctuations. It leads to a speeding up of production and the accumulation of inventories of raw and finished goods when the signal is green, and to precipitate stoppages when a yellow or red light is indicated. Here, also perhaps, is found some part of the explanation of short-sighted advances in prices upon the appearance of an incipient increase in demand and the resultant contraction of output which follows upon its consequent shrinkage.

I shall not dwell further upon these secondary obstacles to investment, the number of which could readily be still further enlarged. After all, something more than the removal of obstacles is needed to bring about a

large and continuing expansion of the capital equipment of the country. Tendencies and conditions exerting a strong positive influence in this direction must be present. Were they present, I am confident that the secondary obstacles which I have indicated would be readily surmounted.

For the investment of capital on a large scale, three influences or conditions would seem to be essential. They are, first, large supplies of capital available at low rates; second, relatively low prices for the concrete products on which investment funds are expended; and, third, and of most importance, reasonable expectations that there will be a satisfactory demand from consumers for the additional goods and services resulting from the investment of additional capital.

Our experience during the last few years seems clearly to indicate that the first of these factors, a large supply of investment funds available at low cost, does not of itself exert a sufficiently potent influence to yield activity in the production of capital goods. Some decline in the cost of capital and of bank credit was an inevitable result of slackened demand incident to the depression; and this declining tendency of rates has been accentuated by means of the monetary policies which have been adopted. It is not possible, however, to reduce rates indefinitely for all uses of capital by monetary action. Here, as elsewhere, there are rigidities in our economic structure. Easy money can bring about abnormally low rates for short-time loans of the highest quality. Easy money also exerts a powerful influence upon quotations of bonds of the highest class, and a somewhat less potent influence on bonds of inferior quality. Easy money may also induce rising prices for equities actively dealt in on stock exchanges; but easy money does not, in any short period of time at least, affect very much the cost of securing new capital except for corporations in the highest credit. Moreover, in the United States, owing in part to our decentralized banking system, the pervasive influence of easy money even in the case of short-time commercial loans is considerably less than elsewhere.

Finally, it may be observed that the effect of easy money is obstructed because of the grave doubts entertained by investors as to the persistence of low rates brought about chiefly by this means. Over a long period of time, if there is an abundance of savings relative to investment demand, the expected rate of return on investments will doubtless decline; but when the decline in rates is induced by a monetary factor, investors are properly sceptical as to its persistence and are, therefore, unwilling to purchase any considerable volume of long-term issues yielding a low fixed rate of return. While easy money then no doubt exerts some influence tending to reduce rates of interest, it seems clearly quite inadequate of itself to create a situation in which there shall be an active demand for the products of the capital-goods industries.

Looking elsewhere for the failure of the capital-goods industries to

expand, I venture to call attention to two obstacles of a very fundamental character—imperfect competition and the absence of any close relationship between price and demand in the case of most of the products of these industries. Such products as steel and cement are not used singly but in association with other products. Consequently, a reduction in the price of any one of them is unlikely to induce any appreciable increase in demand. Only in the event that a reduction is widespread can it be anticipated that demand will respond to the price stimulus. Under conditions of pure competition in the various heavy industries a reduction in prices all round would surely follow slackened demand, and thus help to create a situation favorable to its subsequent expansion. Consider, for example, the situation which would probably have developed had production of the various products of the heavy industries been conducted by many times the present number of companies. There would have been cutthroat competition with disastrous consequences to many; but who can doubt that a situation would have been created which would ultimately have induced an increased demand?

I would not suggest that it is either desirable or possible to introduce conditions of pure competition in the various heavy industries of the country. The problem must be attacked in some other fashion with the objective in view of securing by more orderly and less disastrous methods what might be accomplished under a regime of unfettered competition. Where the number of producers is limited, the range of choice in the determination of business policies is widened. Planning of some sort takes the place of the invisible hand of competition. The problem, therefore, is to discover the kind of planning which will best serve both the interests of the heavy industries as well as those of the community. I repeat in "the interests of the heavy industries as well as those of the community," since quite obviously resort to restrictions on output have been far from profitable to the industries concerned.

What I have said about the heavy industries would seem to apply with very little modification to the policies of various groups of organized workers. The demand for the labor of any one group of skilled workers is not greatly increased by anything that the group may do in the matter of wage rates. It is only a general reduction of wage rates of all the groups of skilled workers that work in association in producing a given product that can be expected to exert a stimulating influence on demand. A reduction, for example, of the wage rates of bricklayers will do little to induce demand unless it is accompanied by a corresponding reduction of wage rates in all or at least in a large number of the various building trades. Moreover, even a general reduction in wage rates in the building trades may be counteracted by an advance in prices of building materials. In

these circumstances it is unreasonable to look for stimulation of business through an initial reduction in wage scales.

As I look at the matter, botn business policies and labor policies during the last four years have impeded the development of a demand for the products of the capital-goods industries—policies which, until recently in all events, have apparently been regarded with unconcern, if not with favor, by the Government in Washington. It would serve no useful purpose to attempt to apportion the responsibility attaching to these three parties in interest. It seems far wiser to attempt to indicate what business, labor and the Government might reasonably be expected to do in order to bring about the desired result of an increased demand for capital goods. It is clearly a situation in which enterprise and risk-taking are required; and for this reason I venture to think that the initiative should come from business rather than from labor or the Government.

Until the advent of the current recession, it was perhaps not unreasonable to anticipate that complete recovery would come of itself. In view of the expectation of a rapid upward surge of prices of an inflationary character for which some economists are in part responsible, it is not surprising that prices were advanced in many lines upon the appearance of a slight increase in demand, and that no vigorous efforts were made to check a rapid upward advance in labor costs. Where there is a general eagerness to advance prices, there is obviously no logical ground for the retention of prevailing wage scales. It should now be evident, however, that a higher level of prices through monetary means alone is unlikely to occur in the near future and almost certain not to be maintained. An upward movement of prices requires, if it is to be maintained, something approaching steady full employment of labor. Rising prices are rather a result of activity than a cause.

Finally, it may be noted that the attitude of the Government has now become more favorable to an increase in the volume of production through a reduction in costs and prices where it seems reasonable to anticipate that an increased demand would thereby be stimulated. In these circumstances then, it seems that the time is ripe for positive action on the part of those concerned with the conduct of the capital-goods industries. I do not suggest that much could certainly be accomplished through price reductions of particular products, although action on the part of certain conspicuous factors in the heavy industries might serve to start the ball rolling; but, given the existing organization of the heavy industries, I feel certain that concerted action would be far more effective. A general reduction of prices to the point at which a modest profit would still be realized as production approached full capacity would seem to me to provide the basis for a general expansion in demand. Very likely at this

point the specter of the Sherman Anti-Trust law rises in the minds of many as an insuperable obstacle. I question very much, however, whether the anti-trust law should be regarded as a serious impediment to this concerted action in view of the present attitude of the Washington authorities. After all, concerted action designed to reduce prices and increase demand is a very different thing from concerted action directed toward maintaining, to say nothing of establishing, an increase in prices.

Following the adoption of a concerted policy directed toward bringing about an increase in volume, the industries concerned would be in a far better position than now to insist upon an increase in efficiency and perhaps also a reduction in some existing wage scales; but certainly nothing in this direction can reasonably be expected so long as the policy of the various industries is precisely that of the less intelligent labor leaders—that of making adjustments to demand almost exclusively through reduced output.

I now turn to the question whether there is reasonable ground for anticipating a large and maintained increase in the demand for the products of the capital-goods industries in the event that prices were quite materially reduced. In the case of the familiar uses for additional capital, all of our past experience indicates that here a little, and there a little, are opportunities for employing additional capital in improved and enlarged equipment provided costs are low—both the cost of securing capital and the cost of the concrete things in the purchase of which the funds are expended. To increase and improve facilities for the production of greater quantities of the consumer goods and services which we have been producing in the past, however, may readily lead to over-development. Moreover, it is not to be anticipated that there will be any large absorption of capital in some of the directions where the most considerable investments were made in the twenties. It is not probable, for example, that lower prices would induce in the near future any very considerable increase in the construction of office buildings or high rental apartment houses. In these directions development was carried unduly far in the twenties and presumably we have not yet grown up to the existing supply. Even under existing conditions of costs of materials and labor, there is clearly a sufficiently elastic demand for electric power to induce a very considerable absorption of capital once the utility policy of the Government has been determined on a basis reasonably fair both to the public and to the companies. With lower costs of construction materials, no doubt still further expansion in this field could be expected. In the case of the railroads, a large but less considerable absorption of capital may be anticipated even though the stimulus of an elastic demand is lacking. Wise railroad investment would seem to be limited to such expenditure as will definitely reduce costs of operation.

In view of the abundance of savings seeking investment, we cannot,

however, anticipate that the miscellaneous demand for capital together with that of the utility companies and the railroads will be sufficient to absorb for an indefinite period all available funds and fully employ the capital-goods industries. There is, however, one obvious product for which there is an elastic demand of vast proportions. I refer, of course, to better shelter for the mass of people in the United States. Were this provided, it would further induce a large subsequent demand for appropriate house furnishings of many kinds. Hitherto efforts to meet this demand have been limited almost entirely to measures directed toward reducing the costs of financing and modernizing financial arrangements. They alone have not proved effective and it mayhap be questioned whether a reduction in the price of building materials, even if accompanied by some increase in efficiency in building labor and reduction in building wage rates, would be sufficient to secure the maximum of improvement in shelter which is feasible. In addition, we need the creation of business organizations producing shelter on a large scale, both for sale and for rent. This is essential because there are many costs involved in the production of shelter in addition to the costs of materials and labor directly employed and the financial costs. Business organizations for building and servicing low-cost houses have not been developed in this country to an extent comparable to that in many other countries. Because of this lack of organization, we cannot expect rapid expansion in this field. It does, however, clearly afford the most promising opportunity for the investment of capital in the future with a resultant improvement in the standard of living of estimable value. That an elastic demand for better shelter exists cannot be doubted. To meet this demand, business organization, as well as low material prices, efficient labor and adequate finance are needed.

O. M. W. Sprague

Harvard University

THE EFFECT OF GOVERNMENT REGULATION ON THE STOCK-TRADING VOLUME OF THE NEW YORK STOCK EXCHANGE

Federal regulation of the organized security markets designed to protect the public from price manipulation and to prevent the excessive diversion of bank credit into stock speculative channels became effective in 1934. This regulation has doubtless achieved, in part at least, its objectives. It has, however, at the same time apparently impaired the liquidity of the stock exchanges by tending to decrease trading volume and thus rendering stock prices more discontinuous. In general, trading by stock-exchange members for own account, especially floor trading, appears to have been affected more seriously than trading by the outside public. Odd-lot trading, however, has increased in recent years both relatively and absolutely, which suggests that the new controls may have operated to improve somewhat the confidence of small investors in common stocks as investment media. It would seem desirable now to measure the gains of stock-exchange regulation against the losses involved, with a view to providing such modification as may make for the greatest public protection with the least injury to the quality of the market.

Extent of Government Regulation over Stock Trading[1]

Government regulation of the organized security markets dates from the enactment of the Securities Exchange act in June, 1934. This extremely complicated statute, in addition to requiring the registration of all national security exchanges and of each issue of stock and bonds listed on such markets, granted to two federal agencies extensive control over stock-exchange trading. To the board of governors of the federal reserve system was given authority to regulate margin requirements on both long and short transactions. To the Securities Exchange Commission were granted broad powers to regulate a wide variety of trading practices with a view to maintaining an orderly and non-manipulated market. Among the many prohibitions and regulations which have issued under the authority of the Securities Exchange act are the following, each of which might have exercised some effect on trading volume.[2]

1. Margin Regulations. Under the authority of Sections 7 and 8 of the Securities Exchange act, the board of governors of the federal reserve system has successively established four sets of margin requirements on transactions in stocks. On October 1, 1934, the so-called "anti-pyramiding" margin rules became effective.[3] Under these provisions, the maximum initial loan

[1] This study was undertaken in an effort to determine the effect which recently-imposed government regulations have had upon the stock-trading volume and liquidity of the national security markets. The study has been confined exclusively to the New York Stock Exchange partly because that exchange is by far the most important security market in the country and partly because more satisfactory data were available with respect to that market. The approach has necessarily involved sampling rather than a comprehensive survey of all available facts. Any sampling basis which might be selected is of course open to question, but it is believed that the samples utilized are sufficiently typical to warrant at least tentative conclusions.

[2] The present federal schedule of taxation on capital gains unquestionably has operated to discourage stock trading. The effect of taxes on stock-trading volume, however, is beyond the purview of this article.

[3] *Annual Report of the Federal Reserve Board for 1934,* pp. 35-39.

value of a stock to the trading public was fixed at the higher of 55 per cent of the current market price, or 100 per cent of the lowest price recorded during the preceding three years but not to exceed 75 per cent of the current market value.[4] Thus, initial margin requirements on long positions ranged from 25 to 45 per cent of purchase values. No margin requirements were placed on short sales, and banks were permitted to lend to brokers for the purpose of carrying customer margin accounts up to 80 per cent of the market value of registered stock collateral.

Effective February 1, 1936, these anti-pyramiding regulations were tightened by lowering the optional-loan value of registered stocks from 55 to 45 per cent of their current market prices, thus establishing an initial margin requirement ranging from 25 to 55 per cent of purchase cost.[5]

As of April 1, 1936, the board of governors abandoned the double-option, anti-pyramiding regulations and imposed a flat initial margin requirement of 55 per cent of current market values on all stock purchases.[6] Banks were permitted to lend to brokers up to 60 per cent of the current market values of registered stocks for the purpose of carrying customer accounts (*i.e.*, a minimum 40 per cent margin was required), but no margin requirements were imposed on short sales.

These relatively high margin regulations were left unchanged until November 1, 1937, when minimum initial margins on long transactions were lowered to 40 per cent of current stock prices, and brokers were permitted to borrow from banks up to 75 per cent of the current market value of stock collateral (amounting to a minimum margin of 25 per cent). At the same time a margin requirement of 50 per cent of current market price was imposed on all short sales.[7]

High initial margin requirements obviously operate to discourage speculative stock trading and lower margins to encourage such commitments. Other things being equal, therefore, it would be expected that the volume of stock trading would have been adversely affected following the increased margin requirements of February 1 and April 1, 1936, and would have expanded following the reduction of November 1, 1937.

2. *Prohibitions against Manipulation of Stock Prices.* Section 9 of the Securities Exchange act in general renders it illegal for anyone, outside trader or stock-exchange member, to create a false appearance of activity

[4] Until July 1, 1936, the second optional loan value was to be based upon the lowest price at which a stock had sold since July 1, 1933. It should be noted here that all federal regulations relative to margins which have thus far been imposed relate to initial margins only. Carrying or maintenance margins after purchase of a stock are regulated by the various stock exchanges. In the case of the New York Stock Exchange, minimum required carrying margins on long transactions have been fixed for some time at 30 per cent of the trader's debit balance.

[5] *Fed. Res. Bull.*, Feb., 1936, p. 122.

[6] *Fed. Res. Bull.*, April, 1936, p. 254.

[7] *Fed. Res. Bull.*, Nov., 1937, p. 1075.

in a stock through wash sales, matched orders, or pool operations. Further, the dissemination of any statements to the effect that the market price of a stock is likely to rise or fall as the result of the market operations of traders was forbidden.

These provisions patently were aimed at pool manipulation and were designed to protect the public from being induced to take a position in a stock the price of which was being manipulated by such operators. Effective enforcement of these regulations obviously would require the Securities Exchange Commission to investigate all cases of suspicious market activity in individual stocks. Indeed Section 21 of the Act specifically empowers the Commission to make such investigations by subpoenaing witnesses and examining brokerage-house accounting records.

To the extent that the above provisions discourage pool operations and prevent public participation in pool manipulated stocks, aggregate stock-trading volume would be diminished. In addition, it is possible that the frequent investigations of suspicious transactions by Commission agents would interfere with legitimate stock trading by frightening some brokers and traders, who, until court interpretation of the law has been obtained, might be fearful of unwittingly transgressing the statute.

3. *Restrictions on the Trading of Corporate Officers and Directors in the Stocks of Their Own Corporations.* Section 16 of the Securities Exchange act requires that all corporate officers and directors and all holders of ten per cent or more of any equity security listed on a national securities exchange shall submit to the Commission each month a report of the changes which have occurred in their holdings of all equity securities of their respective corporations. These reports are made public at regular intervals. Further, officers and directors who have realized a trading profit in the stock of their corporations within six months of purchase or sale may be sued by their corporations for recovery of such profits.

The clear intent of these provisions is to prevent corporate "insiders" from securing an unfair trading advantage in their stocks over "outsiders" who necessarily are less well informed. An undesirable effect of the regulations, however, is to discourage corporate officials of means from coming into the market to support the prices of their stocks during severe declines. Should profits on such transactions be realized within the stipulated six-month period, these traders would be subject to suit and obloquy without any compensating protection from possible loss.

4. *Regulations Affecting the Trading Activities of Stock Exchange Members.* Section 11 of the Securities Exchange act grants to the Commission broad powers to regulate the trading of stock-exchange members for their own accounts both on and off the floor. Floor trading can be prohibited entirely, or members can be required to act exclusively either as traders or as brokers. The aggregate borrowings of individual members can be limited (in

no event can such borrowings exceed at any one moment twenty times the member's net worth) and the use of customers' securities as loan collateral can be regulated. Transactions in stocks in which either the principal or agent holds options can be controlled.

These sweeping discretionary powers, of course, were not expected to be utilized by the Commission until after careful study had indicated the desirability of specific regulations. To this end, various studies of trading practices have been undertaken by the Commission, several of which have resulted in special reports.[8] Thus far, the Commission has imposed no regulations on security-exchange trading practices, preferring rather to recommend that certain rules be adopted and put into effect by the exchanges themselves. In the spring of 1935, sixteen such rules were recommended to the national security exchanges. These regulations were promptly adopted by the New York Stock Exchange, becoming effective June 3, 1935.[9] Of this group of rules, those which probably have had the greatest effect on trading volume are the following.[10]

Rule 1. No member or partner of a member shall effect on the exchange for own account purchases or sales which are excessive in view of the trader's financial resources or in view of the market for the securities traded in.

Rules 2 and 3. Except with prior approval of the exchange, no member shall initiate any transaction on the floor for any joint account in which he or his partner is interested. Detailed reports of the progress and position of all joint accounts not disapproved by the exchange are required.

Rule 4. Members are forbidden to execute discretionary orders on the floor of the exchange.

Rule 5. Members are forbidden to execute purchases or sales of a stock for own account while holding a customer's unexecuted limited order to buy or to sell that stock, except at a price less favorable than that specified in the customer's order.

Rule 6. No member or partner of a member shall execute or initiate on the exchange purchases or sales of any security at successively higher or lower prices for the purpose of creating an artificial appearance of activity in the security or influencing its market price.

Rule 7. Members are forbidden to initiate on the exchange purchases or sales of any security in which they or their firms have granted or hold options.

Rule 9. Members are forbidden to act as specialists in any security unless they are registered as specialists in such security by the exchange.

Rule 10. Specialists are forbidden to effect on the exchange purchases or sales of any security in which they are registered for own account or account of their firms unless such transactions are reasonably necessary to maintain a fair and orderly market.

Rule 11. Specialists, their firms, and partners, are forbidden to participate in

[8] The *Report on Trading in Unlisted Securities upon Exchanges* was published in January, 1936, and the *Report on Feasibility and Advisability of the Complete Segregation of the Functions of Dealer and Broker* was published June 20, 1936.

[9] The recommended rules are printed on pages 166-170 of the Commission's Report on the Separation of Broker and Dealer Functions.

[10] To conserve space, the general sense of each rule only is presented.

any joint account for trading in securities in which they are registered, except joint accounts with partners of the specialist, a member of the exchange, or a firm of which a member is a partner.

Rule 13. Odd-lot dealers must be registered by the exchange in the securities in which they deal.

Rule 14. Odd-lot dealers are forbidden to participate in joint accounts created to trade in securities in which they are registered, precisely as are specialists restricted by Rule 11.

Rule 15. Specialists, odd-lot dealers, their partners and firms are forbidden to grant or hold options in any security in which the specialist or odd-lot dealer is registered.

Rule 16. Members are forbidden to effect on the exchange any short sale of a security at a price below the last sale price of the security on the exchange.

Of much greater effect in restricting member-trading for own account was the abolition, effective on the New York Stock Exchange May 17, 1937, of the so-called "daylight" trading privileges of stock exchange members. On April 17, 1937, the Exchange adopted rules previously recommended by the Securities Exchange Commission, which prohibited members, their partners, or firms from taking a position at any time in a listed stock which would reduce the trader's equity in his account below 55 per cent of the long position plus ten points per share on the short position.[11] Prior to this time, members could buy or sell stocks freely during the day without depositing any margin whatever, provided the long or short position taken was closed out that same day. The new regulations, in effect, placed all member "daylight" trading on the same margin basis as purchases and sales by the outside public. Such requirements would be expected to reduce materially the volume of floor trading by stock-exchange members.

Recent Trend in Volume of Stock Trading and in Market Continuity

Following this outline of the more important government regulations which have been placed upon stock trading, we shall now examine into the charge that these restrictions have operated to create an abnormally thin and discontinuous market. Even should it be established that the recent trend has been toward stock-market thinness and discontinuity, it is apparent that it will be impossible to prove the newly established government controls solely responsible. Security exchange trading and stock prices are affected by countless factors, of which government regulation is but one; and it is not possible, of course, to isolate the effect of any single influence. Nevertheless, should it be found that trading volume has declined sharply following the effective date of any one or several such regulations, a strong presumption that these controls were primarily responsible will have been established.

Table I presents the average daily reported volume of shares traded on

[11] These rules were subsequently modified to conform to the new margin regulations of November 1, 1937.

the New York Stock Exchange by months from January, 1934, to November, 1937.[12] An exceptionally light volume of trading characterized the market from May, 1934, to April, 1935, the board of governors' first set of margin requirements apparently having little effect on general activity. With the development of a "bull" market in the spring of 1935, trading volume picked up noticeably. A moderate decline accompanied the imposition of new trading rules in June, 1935, but lasted only a month. A steep decline for two months followed imposition of the 55 per cent margin requirements of April, 1936, and an even more pronounced effect followed the May, 1937, requirement of margins on "daylight" trading by exchange members.

Table I. Average Daily Reported Volume of Stock Transactions on the New York Stock Exchange by Months—January, 1934, to November, 1937[1]
(*in thousands*)

Month	*1934*	*1935*	*1936*	*1937*
January	2,099	747	2,585	2,347
February	2,583	655	2,647	2,284
March	1,150	610	1,962	1,936
April	1,194	896	1,584	1,331
May	974	1,171	825	773
June	646	893	824	633
July	845	1,132	1,338	829
August	618	1,590	1,022	662
September	505	1,447	1,235	1,354
October	602	1,795	1,692	2,045
November	907	2,498	2,294	
December	944	1,824	1,944	

[1] Average figures include Saturdays. Data from January, 1934, to December, 1936, taken from the *New York Stock Exchange Yearbooks;* for 1937, from *The Wall Street Journal.*

Declining trading volume of itself, however, does not prove that the stock market was becoming less continuous; for it is quite possible that hourly and daily stock price changes had remained constant or diminished as volume dropped. To test the continuity of the market, it is necessary to measure price changes against trading volume over a period of time. For this purpose, three different measures were devised. First, the total volume of shares traded each month during the period from December, 1934, to October, 1937, was divided by the aggregate points of change during the corresponding month in the Dow-Jones average of 70 stock prices, the net changes from hour to hour during each trading day being totaled.[13] The

[12] Reported volume of trading, *i.e.,* volume reported on the ticker, is considerably less than the actual volume of transactions, as the ticker does not report odd-lot purchases and sales and "stopped" sales. These latter two categories probably average 20-25 per cent and 8-10 per cent of actual volume respectively.

[13] The period studied begins with December, 1934, which is the first month for which the Dow-Jones average was available by hours during trading days.

TABLE II. AVERAGE NUMBER OF SHARES TRADED PER POINT OF CHANGE IN THE DOW-JONES AVERAGE OF 70 STOCK PRICES, DECEMBER, 1934, TO OCTOBER, 1937[1]

Month	*Total reported shares traded (in thousands)*	*Total points change in Dow-Jones average*	***Average number shares traded per point of change in Dow-Jones average (in thousands)***
1934			
December	23,588	10.35	2,279
1935			
January	19,410	11.69	1,660
February	14,404	11.40	1,264
March	15,849	15.31	1,035
April	22,408	13.22	1,695
May	30,438	15.54	1,959
June	22,340	14.76	1,514
July	29,429	12.31	2,391
August	42,923	19.75	2,173
September	34,748	15.45	2,249
October	46,663	17.21	2,711
November	57,463	17.16	3,349
December	45,590	14.49	3,146
1936			
January	67,211	16.86	3,975
February	60,871	16.98	3,585
March	51,025	20.30	2,514
April	39,616	22.69	1,746
May	20,615	18.43	1,119
June	21,428	14.73	1,455
July	34,787	15.66	2,221
August	26,564	16.34	1,626
September	30,872	14.23	2,170
October	43,988	16.03	2,744
November	50,470	19.40	2,602
December	48,605	16.93	2,871
1937			
January	58,676	15.24	3,850
February	50,255	16.83	2,986
March	50,344	23.01	2,188
April	34,613	27.93	1,236
May	18,565	19.34	960
June	16,443	20.65	796
July	20,715	15.45	1,341
August	17,221	14.52	1,186
September	33,860	43.36	781
October	51,128	54.86	930

[1] Total reported trading volume for each month divided by aggregate points of change in Dow-Jones average of 70 stock prices from hour to hour for that month. Source of data: *The Annalist* for reported trading volume, and *The Wall Street Journal* for changes in the Dow-Jones average.

resulting figures indicate by months the average number of shares traded per point of hourly change in the general stock price average.

The results of this test, presented in Table II, are quite interesting. It

will be noted that, during the period, the average volume of trading per point of change in the Dow-Jones average ranged from 3,974,557 for January, 1936, to 780,900 for September, 1937. Distinct declines are evident February through May, 1936, and February through October, 1937. It will be recalled that margin requirements were raised in February and again in April of 1936, and that margins on member daylight trading were announced April 17, 1937, and made effective one month later. The marked improvement in market continuity beginning in June, 1936, and continuing through January, 1937, suggests that the 1936 increases in margin requirements had only a temporary effect.

TABLE III. AVERAGE NUMBER OF SHARES TRADED PER POINT OF CHANGE IN MARKET PRICE OF NINE ACTIVE STOCKS FOR MAY, 1934–1937[1]

Stock	*May, 1934*	*May, 1935*	*May, 1936*	*May, 1937*
Anaconda Copper	20,330	72,381	16,139	13,001
Chrysler	31,625	38,674	14,439	4,673
Commonwealth and Southern	90,743	136,200	105,066	101,422
General Electric	33,061	53,182	16,086	9,576
General Motors	45,354	50,583	29,528	19,200
Montgomery Ward	28,302	24,700	17,719	6,232
New York Central	16,944	30,849	18,000	21,665
Radio Corp. of America	68,818	102,262	66,865	51,226
U. S. Steel	16,577	22,322	20,422	9,866

[1] Source of data: *The Wall Street Journal.*

Of especial significance is the figure for September, 1937. Despite the sharp pick-up in total reported trading volume to 33,859,818 shares from 17,220,623 for August, the number of shares traded per point of change in the Dow-Jones average reached the lowest level of the entire period under survey. This figure of 780,900 shares compares with 2,145,902 per point of change for the entire year 1935, 2,378,219 for 1936, and 1,400,553 for 1937 through October. On an annual average basis, 1937 figures are 35 per cent below those for 1935, and 41 per cent below those for 1936, which suggests a definite drop in stock-market price-continuity.

To measure the changing market-price continuity of active stocks, a second test was employed covering the month of May for the years 1934 to 1937.[14] Nine active stocks were selected and the daily volume of trading in each stock was totaled for May of each year.[15] Each monthly total was then divided by the aggregate number of points of change in the market

[14] The month of May was selected partly because the general stock-market conditions were reasonably similar during that month for each year except 1934, and partly because the month reflected the higher margin requirements of 1936 and the announced revised "daylight" trading rules of 1937.

[15] The stocks selected were the ones most frequently reported by *The Annalist* among the market leaders for the last week in May of the years studied.

price of the respective stock for the month, which latter figure was derived by adding the changes in price from one day's close to the next. The resulting figure indicated the volume of trading per point of change in market price of the individual stocks for each month studied. The results of this test, presented in Table III, are striking to say the least. Figures for 1935 in general range above those for 1934. All 1936 figures, however, are far under those for 1935; and, with the single exception of New York Central common, all 1937 figures are under those for 1936.[16]

Whereas the trading of 50,583 shares of General Motors common in

TABLE IV. AVERAGE SPREADS IN BID-ASK QUOTATIONS ON A SAMPLE OF COMMON STOCKS LISTED ON THE NEW YORK STOCK EXCHANGE FOR MAY, 1935, AND MAY, 1937[1]

Day	*Total points of spread in bid-ask quotes*	*Number of stocks traded and quoted*	*Average spread in bid-ask quotes per stock*
1935			
May 1	51.50	65 traded 18 quoted	.62
2	57.50	67 “ 15 “	.70
3	47.25	61 “ 20 “	.58
4	41.50	57 “ 24 “	.51
6	63.50	70 “ 15 “	.75
7	46.125	65 “ 17 “	.56
8	44.875	65 “ 19 “	.53
9	42.50	68 “ 15 “	.51
10	44.25	73 “ 10 “	.53
11	48.625	55 “ 27 “	.59
13	55.375	64 “ 20 “	.66
14	55.75	62 “ 22 “	.66
15	42.875	64 “ 18 “	.52
16	42.875	74 “ 10 “	.51
17	46.75	73 “ 9 “	.57
18	72.875	62 “ 23 “	.86
20	69.75	67 “ 18 “	.82
21	68.50	67 “ 17 “	.82
22	63.75	70 “ 12 “	.78
23	64.375	61 “ 22 “	.78
24	64.875	66 “ 18 “	.82
25	64.50	56 “ 27 “	.78
27	72.875	63 “ 23 “	.85
28	83.125	77 “ 8 “	.98
29	78.625	64 “ 20 “	.94
31	77.50	69 “ 17 “	.90
Totals	1516.000	2169	.70

[1] Sample consists of all listed common stocks (except American Express Company) the names of which begin with the letter "A." Source of data: *The Wall Street Journal.*

[16] Objection can, of course, be raised to the stocks selected as the sample and also to the month selected for comparison. A more accurate measure of price-continuity would have been to total all changes in price from transaction to transaction for the individual stocks, but such data were not available to the writer.

TABLE IV.—*Continued*

Day	*Total points of spread in bid-ask quotes*	*Number of stocks traded and quoted*	*Average spread in bid-ask quotes per stock*
1937			
May 1	94.875	68 traded 20 quoted	1.08
3	111.125	67 " 23 "	1.23
4	84.875	73 " 15 "	.96
5	79.50	68 " 20 "	.90
6	87.875	70 " 19 "	.99
7	106.75	67 " 23 "	1.19
8	107.25	51 " 38 "	1.21
10	102.25	70 " 17 "	1.18
11	89.00	61 " 27 "	1.01
12	142.625	67 " 23 "	1.58
13	141.625	83 " 7 "	1.57
14	127.25	74 " 14 "	1.45
15	125.625	57 " 28 "	1.48
17	120.125	67 " 24 "	1.32
18	114.50	75 " 14 "	1.29
19	116.00	68 " 20 "	1.32
20	102.375	69 " 20 "	1.15
21	93.75	68 " 20 "	1.07
22	107.125	60 " 27 "	1.24
24	97.875	71 " 16 "	1.12
25	88.75	72 " 17 "	1.00
26	93.25	65 " 23 "	1.06
27	87.875	64 " 23 "	1.01
28	92.50	62 " 26 "	1.05
Totals	2514.875	2121	1.19

May, 1935, produced one point of average change in daily closing prices, 19,200 shares traded produced the same effect in May, 1937, a drop of 63 per cent. Corresponding figures for United States Steel were 22,322 and 9,866, a drop of 56 per cent; for Chrysler from 38,674 to 4,673, a drop of 88 per cent; for Radio Corporation from 102,262 to 51,226, a drop of 50 per cent; for General Electric from 53,182 to 9,576, a drop of 82 per cent; and for Commonwealth and Southern from 136,200 shares to 101,422, a drop of 25 per cent. Clearly, the market for active stocks was much less continuous in May, 1937, than two years earlier.

This conclusion is borne out by a somewhat similar study recently made by the New York Stock Fxchange.[17] In this study, 30 stocks were used. The trading volume per point of change in market price over twelve scattered days of rising stock prices in 1930-31 was compared with the volume per point of change over twelve scattered days of rising prices in 1936-37. This comparison revealed that less trading per point of price change occurred in 1936-37 than in 1930-31 in the case of 21 stocks and

[17] Published in the *President's Annual Report for the Year Ending May 1, 1937*, p.54.

more trading in the case of 9 stocks. A similar comparison was made over twelve days of declining prices in 1930-31 and in 1936-37, revealing that less trading per point of change occurred in the latter period in the case of 24 stocks and more in the case of 6 stocks. For the group of 30 stocks as a whole, an average of 18,500 shares traded in 1930-31 produced one point of average price rise, whereas but 10,100 shares produced the same effect in 1936-37. The comparison during declining markets yielded even more striking results. For the 30 stocks as a group, the market in 1930-31 absorbed an average of 23,100 shares per point of price decline, whereas an average of 6,700 shares traded produced a similar price effect in 1936-37.

To test the trend in market-price continuity of the less active stocks, a third measure was employed. All of the common stocks listed on the New York Stock Exchange the names of which began with the letter "A" (except the American Express Company common) were used as the sample.[18] This provided a group of 85 to 90 stocks, most of which were either quite inactive or relatively so. The spread between closing bid-ask quotations on each of these stocks was recorded and totaled for each trading day during May, 1935, and May, 1937. The average spread per stock for each day of these two periods was then calculated.[19]

The results are presented in Table IV. For May, 1935, average spreads per stock ranged from .51 point to .98 point, averaging .70 point for the

[18] This stock over both periods studied was regularly quoted with a 50 point or more spread between bid-ask quotations, which was so far out of line with other quotations as to obscure the typical comparison.

[19] It might be argued that a better method of comparing changes in bid-ask quotation spreads would be obtained through measuring the spread as a percentage of the bid or ask price. This procedure would relate spreads to current market values on the theory that wider absolute spreads would normally be expected with higher prices, a theory which appears to be reasonable but which has never been tested statistically so far as the writer knows. Limited sampling, however, raises serious doubt as to the value of such a basis of comparison. For example, average spreads of the stock sample in Table IV for the first full trading day in May, 1935, were approximately 5.8 per cent of bid prices; for the corresponding day in May, 1937, 4.4 per cent of bid prices, which would suggest that the latter market was substantially more liquid than the former.

Such an apparent result might well have been expected because this procedure involves a downward bias as stock prices rise. The higher the bid price, the lower must be the percentage of a given spread to the bid. To use an extreme illustration, assume stock "A" to be quoted at ¼-⅜ and stock "B" at 200-290, the spreads to bid quotations being 50 per cent and 45 per cent respectively. Can it be maintained that a more continuous market exists for stock "B" than stock "A" because 45 per cent is less than 50 per cent? Almost certainly the next transaction in stock "A" will occur ⅛ point away from the bid price, whereas the next trade in stock "B" will probably be 40 to 50 points away from the bid price; and this sale might well not occur for days. From the viewpoint of the investor wanting to sell his stock, price continuity is a matter of absolute and not relative amounts. To him, that market is more liquid in which he can sell promptly at the fewest possible points away from the last quotation, regardless of the percentage which that change is of the last price.

It should be stated, however, that the variation in spreads presented in Table IV probably results in part at least from the higher level of stock prices obtaining in 1937 as compared with 1935. A similar observation probably should be made in connection with Tables II and III.

period. For the corresponding month in 1937, average spreads per stock ranged from .90 point to 1.58 points, averaging 1.19 points for the period. For the comparatively short intervals studied, therefore, average spreads in bid-ask quotations in 1937 were approximately 70 per cent above those of 1935, indicating a markedly more discontinuous market in 1937.

Trend in Volume of Stock-Exchange Member Trading

If it be granted that the data already presented do indicate a trend toward a more discontinuous stock market, it will be of interest to learn whether this situation apparently results from diminished trading on the part of the general public or on the part of stock-exchange members, or both.

Prior to June, 1935, data as to member trading activities were wholly unavailable. At the request of the Securities Exchange Commission, however, both the New York Stock Exchange and the New York Curb Exchange collected such data covering the period from June 22 to December 14, 1935, this information serving as the basis for the Commission's report on the desirability of separating broker-dealer functions.[20] After a lapse of several months, both exchanges resumed the collection of these figures, reporting them regularly to the Commission which in turn has released them at weekly intervals.[21] With the exception of the period from December 14, 1935, to February 28, 1936, therefore, accurate data relative to the trading activities of various groups of members of the nation's two leading stock exchanges are available since the early summer of 1935. It is possible, accordingly, to measure quite accurately during this period and with respect to these two exchanges the relative volume of stock trading initiated by exchange members and by the outside public.

Exchange-member trading for own account takes the form largely of orders initiated on the floor by floor traders and off the floor for the account of members or their firms. Specialist trading reflects transactions for own account and also orders initiated by the outside public and transmitted through commission and floor brokers for execution, whereas the transactions of odd-lot dealers reflect orders initiated by the outside public altogether. If the volume of member trading for own account has been adversely affected by government regulation, one would expect to find a declining trend in the volume of transactions initiated by members on the floor and off the floor for member account, and a lesser decline in specialist trading. Odd-lot volume, on the other hand, would reflect changes in public small order participation in the market.

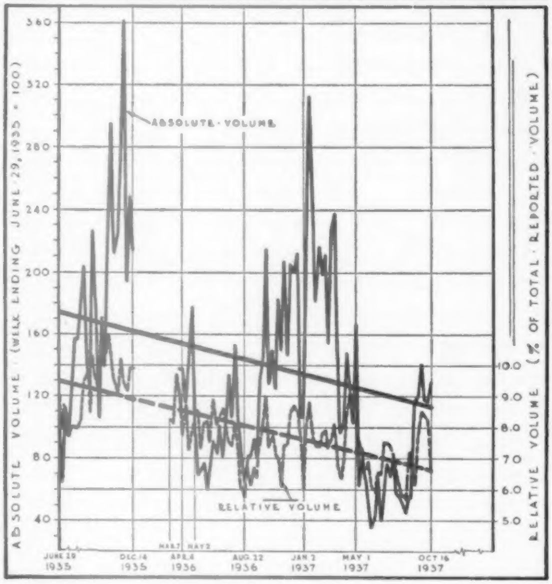
The broken lines on Charts 1 to 5 indicate changes in the absolute amounts

[20] Curb Exchange data cover the period from July 6 to December 14, 1935. The New York Stock Exchange, through Bradford B. Smith, economist, was most helpful in supplying data for this study. All of Chart 4 and the solid lines on Charts 1, 2, 3, and 5 were plotted from data supplied by the Exchange.

[21] The weekly releases of the Commission commenced October 24, 1936.

of shares traded by these various groups on the New York Stock Exchange over the period studied.[22] Four of the five charts reveal a general downward trend in trading volume throughout the period, odd-lot trading alone indicating a rising trend. In the case of transactions initiated on the floor of the Exchange, the trend drop from first to last was 35.5 per cent; for transactions initiated off the floor, 11 per cent; and for specialists' trading, 7 per cent. Odd-lot dealers' transactions, however, indicated an opposite tendency, the trend rise from first to last approximating 7 per cent. From June 22, 1935,

CHART 1. TREND · IN · ABSOLUTE · AND · RELATIVE · VOLUME OF · ROUND-LOT · TRANSACTIONS · IN · ALL · STOCKS · INITIATED · ON · THE · FLOOR · OF · THE · EXCHANGE · FOR · ACCOUNT · OF · ALL · MEMBERS · (EXCEPT · SPECIALISTS · AND · ODD-LOT · DEALERS · IN · STOCKS · IN WHICH · THEY · WERE · REGISTERED) · JUNE 22, 1935 · TO · OCT. 16, 1937



to October 16, 1937, the trend drop in all member trading for own account (except odd-lot transactions) amounted to 16.5 per cent.[23]

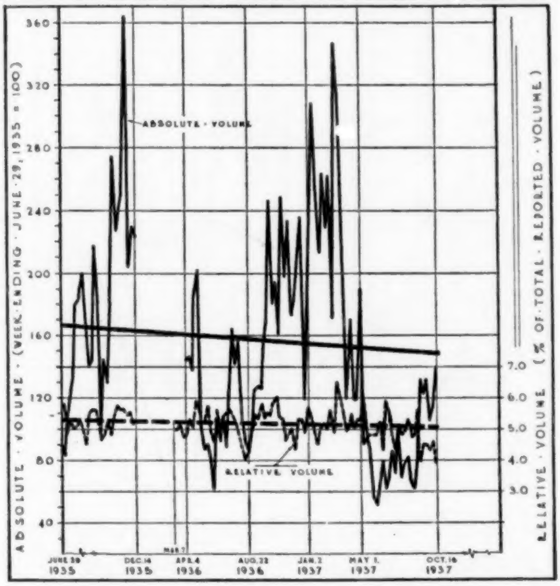
All charts reveal a steep decline in actual trading volume from about

[22] Source of data from which Charts 1, 2, 3, and 5 were prepared: for June 29, 1935, to December 14, 1935, Securities and Exchange Commission, *Report on the Feasibility and Advisability of the Complete Segregation of the Functions of Dealer and Broker*, pp. 122-165; for the period April 4, 1936, to October 16, 1937, weekly news releases of the Securities and Exchange Commission for data as to changes in absolute volume (broken lines), New York Stock Exchange for data as to relative volume of trading beginning March 7, 1936 (solid lines). Chart 4 was prepared from data supplied by the New York Stock Exchange.

[23] Trend lines for Charts 1 to 5 were calculated by Dr. John R. Stockton, associate professor of statistics, University of Texas, whose assistance is hereby gratefully acknowledged. In calculating these trends it was necessary arbitrarily to bridge over gaps in the data from mid-December, 1935, to early March or April, 1936.

May 1 to June 6, 1936, following the April 1 raise in margin requirements, and again from about May 8 to June 22, 1937, following the imposition of margins on daylight trading. These declines were somewhat more severe in the case of transactions initiated on and off the floor than in the case of specialist and odd-lot dealer transactions, although the drops in these latter two categories were marked. It is interesting to note that some 14 weeks after the margin increase of April 1, 1936, trading volume of all groups improved sharply and continued generally upward for some five months.

CHART 2. TREND · IN · ABSOLUTE · AND · RELATIVE · VOLUME OF · ROUND-LOT TRANSACTIONS · IN · ALL · STOCKS · INITIATED · OFF · THE · FLOOR · OF · THE · EXCHANGE · FOR ACCOUNT · OF · ALL · MEMBERS · ——— ——— JUNE 22, 1935 TO · OCT. 16, 1937



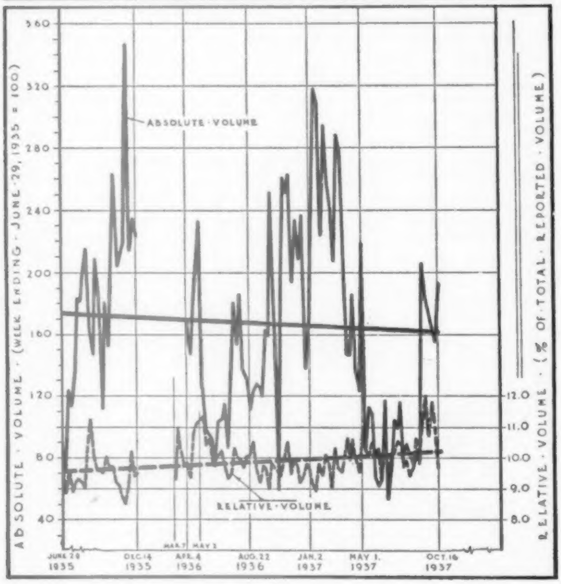
Of much more significance in appraising the effect of government regulations on trading volume is a study of the changing proportions of exchange-member trading for own account to total reported transactions on the Stock Exchange. Such a study should reveal rather clearly whether member trading or transactions initiated by the public have been most affected.

The solid lines on Charts 1 to 5 present graphically the changing proportions of the various categories of member trading for own account to total reported volume of transactions on the Exchange.[24] Sharply divergent trends

[24] In calculating proportions, total reported transactions were doubled because every transaction involves both a purchase and sale, and exchange-member trading totals represent the sum of purchases and sales. It should be recalled that reported volume averages only about 70 per cent of actual volume, odd-lot transactions and "stopped" sales not being

are indicated. The general trend of member transactions initiated on the floor was definitely downward over the period, dropping from 9.4 to 6.6 per cent of the total reported volume. Rather pronounced declines were in evidence from June 13 to August 22, 1936, and again from April 17 to June 12, 1937. The latter drop was to be expected following the imposition of margins on daylight trading announced April 17 and effective May 17.

CHART 3. TREND · IN · ABSOLUTE · AND · RELATIVE · VOLUME · OF · ROUND-LOT · TRANSACTIONS · FOR · ACCOUNT · OF · ALL · SPECIALISTS · IN · THE · STOCKS · IN · WHICH · THEY · WERE · REGISTERED — JUNE 22, 1935 · TO · OCTOBER 16, 1937



Inasmuch as the daylight trading privileges of floor traders were not affected by the margin increase of April 1, 1936, little effect on such trading was to be expected following that action.

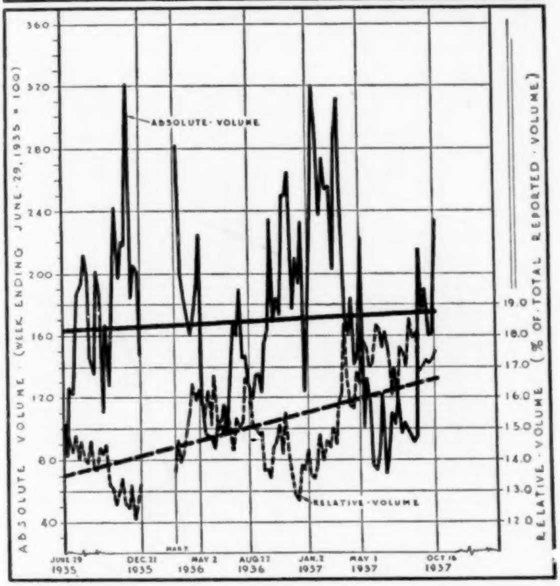
Transactions for member account initiated off the floor of the Exchange revealed a faintly declining trend over the period, averaging slightly above five per cent of total reported volume. As with transactions initiated on the floor, a sharp drop in proportionate volume developed from May 1 to June 19, 1937, but the April 1, 1936, margin increase had little effect on proportionate volume and probably for the same reason.

Both the transactions of specialists and odd-lot volume revealed an up-

reported on the ticker. "Stopped" sale transactions effected by members for own account, however, are included in the various member-trading totals. It is apparent, therefore, that in comparing member-trading totals to reported rather than actual volume, the relative importance of the former is somewhat exaggerated.

ward proportionate trend throughout the period. The former rose from 9.6 per cent of total reported volume to 10.1 per cent, and the latter rose from 13.5 to 16.6 per cent. Specialist transactions declined slightly in relative volume following May 1, 1936, and May 1, 1937. Odd-lot proportionate volume dropped slightly following May 1, 1936, but increased markedly from December 12, 1936, to August 14, 1937. As might have been expected, the daylight trading margin rules exercised no depressing influence on the relative volume of odd-lot transactions.

CHART 4. TREND · IN · ABSOLUTE · AND · RELATIVE · VOLUME · OF · TOTAL · ODD-LOT · TRANSACTIONS · BY ODD-LOT · DEALERS · AND · SPECIALISTS. — JUNE 22, 1935 · TO · OCTOBER 16, 1937



Conclusions

Although the study just described does not represent a complete survey of all available facts, the following conclusions appear to be warranted.

1. During the past two and one-half years, the New York Stock Exchange has become a markedly more discontinuous market for stocks. With a general trend toward declining trading volume, stock prices have shown an increasing tendency toward wider spreads from sale to sale and wider ranges in bid-ask quotations. So far as indicating a market trend is concerned, it is probably correct to say that a change of two or three points in stock prices today has no more significance than a change of one point several years ago.

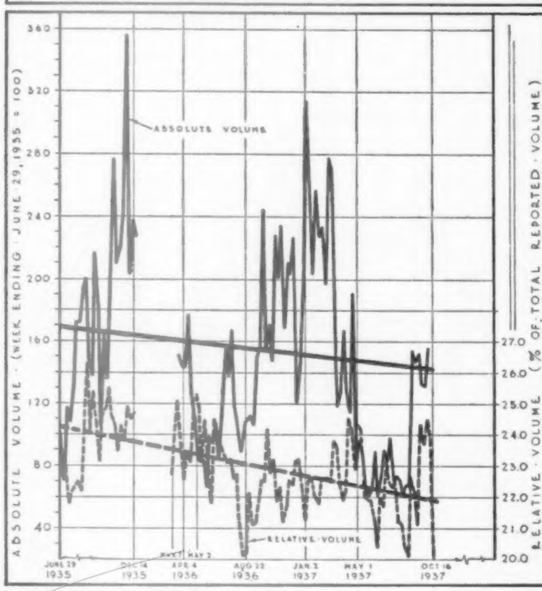
2. Trading both by the outside public and by stock-exchange members diminished noticeably in volume during the period studied. Member trading for own account has declined relatively more than public trading, the volume of the former

being about 10 per cent less in proportion at the end of the period than at the beginning.

3. Of the various categories of exchange member trading for own account, floor trading has been most affected. The decrease in this type of trading has been pronounced, declining 35 per cent in absolute amount and 30 per cent in relative volume.

4. The regulations which have had the greatest effect on trading volume unquestionably have been those relating to initial margin requirements. The volume of transactions initiated both by the outside public and by exchange members declined sharply following imposition of higher margin requirements in the

CHART 5. TREND · IN · ABSOLUTE AND · RELATIVE VOLUME · OF · TOTAL · ROUND-LOT · TRANSACTIONS IN · ALL · STOCKS · FOR · ALL · MEMBERS · EXCEPT · ODD-LOT DEALERS JUNE 22, 1935 TO OCTOBER 16, 1937



spring of 1936. Floor trading, of course, was most affected by the requirement of margins on daylight trading. Regulations relative to pool trading, manipulation, joint accounts, trading in optioned stock, and strictures against officer and director trading in the stocks of their corporations have doubtless operated to reduce trading volume somewhat, but it is impossible to approximate statistically such effect.

It should be pointed out that the diminished trading volume and increased market discontinuity of the past several years cannot be blamed upon any one single government regulation, not even upon higher required margins. Rather, it seems probable that the long succession of new rules and regulations has exercised a cumulative effect, gradually discouraging more and more traders and either driving them out of the market altogether or reducing their activity. It would seem that, of the traders who have retired partially or wholly to the sidelines, more are professionals than amateurs. In the long run, the market activities

of the former group are more likely to keep prices in line with sound values than amateur trading which is based largely on chance information and which is more easily affected by mob psychology.

5. Whether stimulated by government regulation or not, the volume of odd-lot transactions increased during the period both in absolute and relative amount. It seems reasonable to believe that the new controls have operated to some extent at least to build the confidence of small investors in common stocks.

The trading regulations which have been put into effect thus far have had three definite objectives: first, to control the volume of bank credit employed to finance stock speculation; second, to protect the amateur public from price manipulation by professional traders and corporate insiders; and, third, to provide a more orderly market in which prices would be more closely related to investment values and less subject to violent fluctuation. A fourth objective appears to be implicit in the general policy of the Securities Exchange Commission—namely, to convert the exchanges into security markets effecting as far as possible purchases and sales for the account of investors rather than speculators.[25] This program apparently is based upon a belief that speculative trading, especially by exchange members, does more harm than good and that stock values will be more accurately determined by investment transactions than by speculative trading.

The machinery by which the first mentioned objective can be accomplished has certainly been established. The board of governors can fix margin requirements within their discretion and as a result they are in a position to control positively the flow of bank credit into stock speculation channels. Undoubtedly the 1936 increases in margin requirements did operate to restrict the expansion of stock collateraled loans.

It seems certain also that at least partial progress has been made toward realizing the second objective. Some protection unquestionably has been afforded to the public against manipulation of stock prices; and the possibility of abuse through exchange members, acting in the dual rôle of broker and dealer has been diminished. Likewise the trading advantages formerly enjoyed by corporate insiders over the general public have been lessened. It is impossible, of course, to measure statistically the results which have been obtained in this direction.

The third objective has assuredly not been realized thus far. Stock prices during the past thirty months may or may not have been more closely related to investment values, depending upon the individual's personal opinion. The market, however, has been far from orderly as witness the long advance in prices from the spring of 1935 to mid-summer of 1937, and the steep decline which ensued thereafter. Wide and erratic price swings featured the decline, with demoralized conditions obtaining on several trading days.

[25] The press statement released on November 23, by W. O. Douglas, chairman of the Commission, outlines this objective pointedly.

Progress toward realizing the fourth objective has certainly been made. Speculative trading by exchange members, especially floor trading, has declined sharply. Presumably speculative trading by the outside public has diminished also, although it is impossible to measure this statistically. On the other hand, odd-lot trading, which reflects investment demand to a large extent, has increased noticeably.

These various results, however, have been achieved at considerable sacrifice. The security exchanges have become less continuous markets, and stocks correspondingly less liquid. The organized markets have become less able to absorb heavy liquidation and the danger of collapsing price declines has been accentuated. As security marketability has diminished, it has become increasingly more difficult and expensive to raise new capital funds through the flotation of stock and bond issues and business expansion has been retarded accordingly.

It is to be hoped that the gains of the present system of security-exchange regulation will be dispassionately measured against the costs and that modifications will be effected where necessary so as to provide the desired protection to the public with a minimum of injury to the liquidity and efficiency of the security markets. Should the net result prove to be a permanently less liquid and less continuous stock market, a general re-appraisal of stock values will be inevitable.

JAMES C. DOLLEY

University of Texas

INVENTORY PROFITS IN THE BUSINESS CYCLE

The greatest portion of industrial inventories is analogous to water in the pipes of the economic production system. They cannot be drawn off and consumed without stopping the operations of the system. An increase in the prices at which these inventories are valued produces an apparent profit, but this gain is fictitious and unexpendable; it could not be converted into cash without liquidating the inventories. Such a profit is in effect an unrealized (and in practice largely unrealizable) capital gain, yet it has been treated by most accountants, statisticians, and economists as current income—even as a part of our national income.

It is a comparatively easy matter to eliminate unrealized inventory gains and losses from statements of business income, but the methods for accomplishing this have not received any general acceptance. Business-men make their decisions as though fictitious inventory gains (amounting in some years to several billions of dollars) were expendable, and the effect of this misunderstanding is to aggravate the cyclical fluctuations of business. The elimination of fictitious inventory gains and losses from current income statements would be an important contribution toward moderating cyclical extremes.

I

A small but growing number of economists and business-men is coming to recognize a fundamental error in the generally accepted definition of current business income. It is not alone an interest in economic dialectics that brings to the forefront the question of the relationship between unrealized inventory profits and current income; it is a matter of intense practical importance in our operating economy, since it influences business-men in their vital decisions, and in this way makes an important contribution to the cumulative nature both of booms and of recessions.

Boiled down to the simplest terms, the problem has to do with the changing valuations placed upon the inventories of raw materials, goods in process and finished products in our economy. These inventories are analogous to the water in the pipes of the economic system and as such are always present as a part of the capital stock of the community. It seems obvious that when prices rise or fall, the increases and decreases in the value of this stock of inventories (assuming no change in its physical volume) are in the nature of unrealized capital gains (or losses) which should be distinguished from current income. For the economy as a whole, the only way they could really become income would be for the economy to "fold up shop" and consume the goods, leaving the system without inventories. Moreover, to the extent that these inventories are reduced or expanded, the economy is consuming or increasing its capital, not its income. In spite of the improbability of the basic quantum of inventories ever being consumed, our business and accounting system is guided by accepted procedures which regard the "book" results of inventory price fluctuations as current profits or losses—in other words, as income.

A simple illustration will indicate how ordinary bookkeeping methods handle inventory profits. Assume a business having opening inventories of 10,000 units valued at $10.00 per unit and closing inventories also of

10,000 units, but because of advancing costs they are valued at $11.00 per unit. Sales (which are on a cash basis) may have amounted to two or three hundred thousand dollars, and throughout the period they showed a profit over the cost of the goods sold. This profit, let us assume, is $10,000, or an amount equal to 1/10 of the value of the opening inventory. The books of the company will therefore show the following items:

(1) Opening inventory $100,000
(2) Closing inventory $110,000
(3) Profit for the period $10,000
(4) Cash: No change from opening balance sheet

In this over-simplified example, all the profits resulting from sales go directly back into the higher-cost inventories to replace the goods sold, so that at the end of the period the business has gained no expendable, or cash, profits—nor any "real" profits (*i.e.,* has no more goods on hand).

It is true that cash could be realized by failing to replace a portion of the inventories as they are sold, but this would mean a dissipation of a part of the capital needed to run the business.

The foregoing illustration obviously over-simplifies the picture by assuming that all profits are in the form of inventory appreciation. But it is none the less a fact that there is a considerable element of inventory profits in the net results shown by most businesses in a year of rising prices.[1] And it is also true that there are many cases where the "profits" tied up in increased inventory values at the end of a year equal or exceed the total net profits shown on a company's books. In such cases any distribution of profits to the owners of the business must be drawn from cash secured from sources other than the company's current business operations. Frequently it is borrowed from banks, the loans being based in part upon the strength which the inventories add to the working capital position.

These inventory profits may be called unrealized inventory profits—that is, profits represented by unsold inventories rather than cash. In fact, to a going concern, most of the inventory profits are not only unrealized but they are also unrealizable if the concern is to continue in business. Even though inventories are constantly being turned over, a certain quantity of inventories is a part of the capital equipment of the business. Increases or decreases in inventory values are analogous in every essential to unrealized capital gains or losses. Inventory profits, as here defined, cannot be converted into cash profits without a net liquidation of inventories.[2]

[1] In businesses where turnover of inventories is slow, it may be some months before inventory values (on a cost basis) reflect the full extent of the price increase.

[2] A word of explanation is necessary in order to show the relation between the inventory profits discussed in this article and the profits and losses from seasonal operations which are likely to be confused with them. Gains or losses upon seasonal inventories are generally converted to cash as the goods move into consumption, so that at least once a year they are in fact realized profits or losses. Of course a re-stocking in preparation for the next year may require a larger capital outlay if prices are on a higher level. The fact that gains

The analogy between inventory profits and unrealized capital gains is so important that another illustration[3] to clarify the relationship is in order.

Let us assume that in a period of rising real-estate prices a man buys a home for $5,000. Later he sells his home for $8,000 and replaces it with an identical home for $7,000. The price of real estate continues to rise and he is finally able to sell his property for $12,000 and to replace it with one costing $11,000.

If the home-owner set up a profit and loss account at this point, his books would show a total "profit" of $8,000 and he would probably feel elated. His inclination might be to spend a great deal more money and to increase his general scale of living. Yet on closer analysis he would find that he has the same kind of home he had originally and a cash profit available for spending purposes of only $2,000. In other words, his reported "profit" of $8,000, as determined by the rules of accounting, consists of $2,000 cash and $6,000 inventory profit.

To carry the illustration one step further:

Suppose the owner failed to make a careful analysis of his actual position and set out to spend the total "profit" of $8,000 shown on his books. In order to spend this sum of money he would have to borrow $6,000. This he might be able to do and all might go well for a while. In the end, however, he would have financial difficulties to contend with. When the value of his home had declined—and a period of declining real-estate prices has invariably followed one of rising prices—he would find himself saddled with a fixed interest-bearing debt of $6,000 and a piece of real estate that had become greatly depreciated in value. He would also find that instead of spending "profits" of $8,000 as contemplated, he had spent $2,000 cash profits and $6,000 of borrowed money. His inventory profits never became cash profits at all. They vanished as unexpectedly as they came, leaving only a trail of debt to mark their exit.

The only fundamental difference between the home-owner illustration and the facts of a going business is that the former can sell his home for cash, and move to an apartment and await the fall in prices before buying another home. Most business-men cannot possibly follow a course of that kind. In order to supply their trade they have to go on operating with normal inventories. They cannot withdraw from the business and await a fall of prices. They must expect eventually to lose the inventory profits they temporarily gain from a general rise in prices.

It is also clear that, for business as a whole, it has not been possible to

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from one year's liquidation are likely to have to go back into the next year's restocking, provides an analogy with the kind of inventory profits discussed in this article. Since most of the gains are likely to be needed for re-investment in inventories, they are unexpendable if the business is to be operated conservatively, and to be prepared for the year when price declines will mean costly storage losses.

But since there is a periodical liquidation of these inventories, they may be regarded as a special case, which will not here be discussed in detail. It can be assumed for the sake of simplicity that the end of the accounting periods used for calculating the inventory profits under discussion coincide in each case with the low period in seasonal inventory holdings.

[3] For this illustration, as for many helpful suggestions in the preparation of this article, the writer is indebted to Mr. George E. Putnam, economist for Swift & Company, Chicago, who has probably contributed more than any other economist to the discussions of inventory profits.

increase inventories when they are cheap and sell them out when they are high. If proof is needed, one has only to consider statistics of the physical volume of inventories for the products where figures are available. The typical business cycle shows the smallest inventories during the early recovery phase (when they are cheap), then rising inventories as business improves, and peak inventories at some time during the period of general price collapse. This frequently repeated experience indicates that (since someone has to have those inventories on his balance sheet) business as a whole is not able to "move out" and wait for the next favorable buying opportunity. Perhaps a few individual business-men can sell out at a profit and liquidate their business. This is, of course, a cash or realized profit, in many ways similar to profits realized from the liquidation of security holdings at the top of a bull market. But the important point is that someone is holding the goods and taking the book loss which cancels the earlier gain. As long as the original holder does not sell out, his profits are fictitious and unexpendable.

II

A number of businesses have recognized the fictitious nature of inventory profits and have adopted accounting practices which either withhold or segregate inventory gains from their published earnings.

The three devices most commonly employed by accountants in the handling of inventory gains have been discussed by Ross G. Walker in a recent article in the *Harvard Business Review*.[4] These are:

(1) The base-stock method
(2) The last-in first-out method
(3) The inventory reserve method

The first method assigns a fixed conservative book value to a certain quantity of inventories which is considered a basic requisite to the normal conduct of the business. This base-stock is handled, so far as price changes are concerned, as though it were an item of permanent capital in the balance sheet. The value of these inventories is not altered (unless perhaps the value is changed in cases where the original appraisal is considered faulty). Surplus inventories, sometimes called speculative inventories, are handled in the usual manner, at the lower of cost or market.

It is of importance to note that this device is not merely a new method of inventory valuation. It affects directly the definition of corporate income because the cost of production for a given year's output is based upon the

[4] Ross G. Walker, "The Base-Stock Principle in Income Accounting," *Harvard Business Review*, vol. xi, no. 1 (Autumn, 1936), pp. 76-94. Earlier discussions of the inventory profits problem appeared in the January, 1926, issue of the same *Review* (vol. iv, no. 2), "The Rôle of Paper Profits in Industry," by George E. Putnam; and in the October, 1924, issue (vol. iii, no. 1), "Inventory Valuation and the Business Cycle," by H. T. Warshow, comptroller of the National Lead Company.

cost of concurrent purchases of raw materials. It introduces a replacement basis for figuring costs of production,[5] and thus limits reported operating profits (aside from the "speculative inventory" account) to profits on replacement, with inventory gains excluded.

The second device, "last-in first-out," accomplishes a result similar to that of the base-stock method, but it employs an accounting fiction whereby the cost of the most recent purchase of raw materials becomes, on the books, a cost of the first goods sold thereafter. Thus, by indirection, there remains on the books a basic inventory which is never advanced in value as prices rise, nor is its value charged as a cost of current sales. The "first-in" inventory remains on the books at an unchanged value, dating back to the original building-up of the inventories.

An advantage of this method is that each sale of goods can be charged with the cost of a specific lot of raw materials (even though not the physical lot from which the goods were made), thus facilitating a verification and audit of the books. It is also claimed that "last-in first-out" automatically takes care of speculative inventory holdings. However, the method is difficult to apply when identifiable lots of materials cannot be traced through to specific finished products, or where a complicated classification of materials or changing styles would involve serious difficulties in allocating costs.

It should be made clear that over a period of years either of the two suggested accounting procedures will show practically the same total profits as the present orthodox methods. When commodity prices have gone through a complete cycle and have returned to approximately their original level, there will have been inventory losses to offset the inventory profits recorded by the accepted accounting methods. The principal advantages of the suggested changes would be a greater stability of reported earnings from year to year, and an accounting record which would provide a much better guide for intelligent business management.

Both the base-stock and the last-in first-out methods eliminate inventory profits from accounting results by charging current sales with current, rather than past, purchases of raw materials. Both methods retain a working inventory on the books at substantially constant prices. However, present rulings of the Commissioner of Internal Revenue will not allow these two methods of accounting to be used for tax purposes, so that their use must be supplementary to the required reports employed for tax returns.

The third plan, the inventory reserve method, employs no accounting innovations. Inventory profits and operating profits are all included in the income accounts: on the asset side of the balance sheet, inventory valuation fluctuates up and down according to the cost-or-market formula; but

[5] The use of the base-stock or last-in first-out accounting methods which put current operations on a replacement basis should not be confused with the familiar replacement basis for capital valuation. In the latter case it is a matter of calculating hypothetical replacement costs; in the former case of inventory accounting methods, it is a matter of employing the cost of replacements actually made.

on the liability side, inventory profits are segregated[6] from the general profit and loss account and placed in an inventory reserve account. This is not an entirely satisfactory device, because it treats inventory appreciation as current income, and the establishment of a reserve account is merely a recognition of the undistributable nature of such income.

From a practical point of view, any one of the three methods accomplishes the essential purpose of recognizing the ephemeral nature of inventory profits. If it is feasible to estimate the extent of inventory profits without a separate set of books, then it is about as satisfactory in practice to employ the inventory reserve as to do the supplementary bookkeeping required by either of the other two methods.

The accounting plans discussed herewith are of importance because they represent a recognition of the problem on the part of at least some individual business-men and accountants,[7] and because they attempt (however imperfectly) to grapple with it in a practical way. As with other accounting problems, the specific method must be adapted to the characteristics of the particular industry.

It becomes immediately apparent that if inventory profits are distinguished from "operating profits," then operating profits fit neatly into the formula for "profits over current replacement cost" as against the present "profits over original purchase cost" for the goods currently sold. Therefore, any adequate recognition of the nature of inventory profits calls for a twofold revision of accounting procedures. First, current operating results, including such items as the cost of goods sold and current operating profits, must be calculated on something approximating a current replacement basis. Second, the method of valuing inventories must be changed so that price fluctuations do not affect the book value of the basic inventories needed to run the business. The profits or losses actually realized from a net liquidation of inventories could be regarded as the economic equivalent of realized capital gains or losses.

III

The very limited recognition accorded by business-men to the problem of inventory profits and losses is matched by an equally meager treatment by economists and statisticians. There is an almost complete absence of men-

[6] For a theoretical method of calculating such inventory profits, see discussions by Simon Kuznets and Solomon Fabricant in parts iii and iv of *Studies in Income and Wealth,* vol. i, a preliminary report of the Conference on Research in National Income and Wealth, published by the National Bureau of Economic Research, 1937. This method gives a basis for estimating inventory gains and losses, even where (as in the case of retail trade) style changes are frequent. This is accomplished by means of index-number techniques.

[7] The problem of inventory valuation was discussed at length at the 1936 convention of the National Association of Cost Accountants. See *National Association of Cost Accountants' Year Book, 1936,* pp. 161-216, especially the paper by Maurice E. Peloubet. See also "Valuation of Inventories," a report of Special Committee on Inventories of American Institute of Accountants, in *The Journal of Accountancy,* August, 1936, pp. 122-132.

tion of unrealized inventory gains in the literature of business cycles.[8] In fact, it is largely the failure to recognize the fictitious nature of inventory profits that has made them an important business-cycle factor. Therefore, discussions of the topic are naturally meager. The reader can be brought up to date easily by the following brief account of one highly important statistical contribution and a few other incidents (chiefly tax rulings) which have inadvertently turned up the problem.

Efforts to estimate national income have given rise to searching inquiries into the true nature of income. It is not surprising, therefore, to find an expert in the field of national income making the following statement:[9]

> The distorting influence of business accounting practices on any measure of business savings, and hence of national income produced, is considerable, and the need for adjusting figures taken from business accounts must be clearly recognized. Of the various sources of distortion, the changing valuation of inventories appears, for recent years, to have had the largest quantitative effect on business savings and national income produced.

Dr. Kuznets, following this statement, makes a statistical estimate of the extent to which business savings (as revealed in the usual national income statements) reflect inventory profits or losses.[10] The following are Dr. Kuznets' estimated amounts of inventory profits (+) or losses (—) over a series of years:

TABLE I.—ESTIMATED GAINS AND LOSSES RESULTING FROM CHANGING INVENTORY VALUATIONS, 1919–1935[11]
(*million dollars*)

1919	+ 2,098	1928	− 48
1920	− 4,200	1929	− 712
1921	− 6,753	1930	− 4,331
1922	+ 971	1931	− 3,308
1923	+ 218	1932	− 1,520
1924	− 174	1933	+ 2,440
1925	+ 394	1934	+ 2,130
1926	− 1,787	1935	+ 785
1927	− 845		

[8] Mention of the business-cycle significance of inventory profits appears in an article by Sumner H. Slichter in the May, 1937, *Atlantic Monthly,* called "Is Another Depression Inevitable?" and in the articles by George E. Putnam and H. T. Warshow, cited above. In addition, Dr. Simon Kuznets has called attention to a discussion, little known in this country, by F. Schmidt, "Die Industriekonjunktur—ein Rechenfehler!", *Zeitschrift für Betriebswirtschaft,* 2 Sonderheft, 1927.

[9] From *Studies in Income and Wealth,* vol. i, part iv, p. 145, "Changing Inventory Valuations and Their Effect on Business Savings and on National Income Produced," by Simon Kuznets (cited above).

[10] It is of interest to note that in national income estimates, inventory profits must be confined to business savings. This is consistent with the contention that inventory profits are unexpendable. They cannot enter income paid out, or any other item of income produced.

[11] From table presented in part iii, p. 131, *op. cit.* The estimates made by Dr. Kuznets do not conform precisely with results that would be indicated by either the last-in first-out or the base-stock plan. The difference lies chiefly in the treatment of net additions or liquidations of inventories within the accounting period.

These values represent a very important fictitious element in our total national income. Business-men as a whole were looking upon them as substantial profits and losses and were no doubt so guided in their business decisions, even though they resulted in no gains or losses in cash or other expendable assets.[12] Dr. Kuznets feels that it is a mistake to include these inventory profits—which do not represent the value of anything produced (or consumed)—as a part of our national income, even though they do form a part of what business-men *think* their incomes are.

Therefore the proponents of last-in first-out accounting, or the base-stock plan, can count among their number a leading authority upon statistics of national income; and the weight of his views cannot but add substantially to the respect which their underlying principles will command.

Another field in which a recognition of the nature of inventory profits would seem to be all-important is that of income taxation. Here only the records of a few skirmishes indicate that the Bureau of Internal Revenue is cognizant of the problem.

Applications have been made and denied for the acceptance for tax purposes of the base-stock method of inventory accounting—a denial which was confirmed by court ruling.[13] However, the Bureau of Internal Revenue has continued to be petitioned by a number of trade associations[14] and members of industries for a ruling which will accept either base-stock or last-in first-out accounting for tax purposes.

Perhaps the most important stimulus toward the recognition that inventory profits are not expendable income has come through the application of the undistributed earnings tax. This tax is based upon the assumption that all income (as defined for tax purposes) is distributable. Because of this false assumption, the government now finds itself in the anomalous situation of penalizing the failure to distribute an item of "income" which is neither distributable nor is it indeed income. And many business-men who have not formerly been aware of the inventory profits problem as it affected their businesses are now forced to decide between borrowing the funds to pay dividends, or paying the tax—sometimes borrowing the money to do even this.[15] Without the tax they would undoubtedly have allowed a larger part of the profits their books showed to remain in the general surplus

[12] Except to the extent that lenders (also misinterpreting) took the changing values of inventories into account in advancing or calling loans.

[13] The Kansas City Structural Steel Co. case (1930), which started with a decision of the Commissioner of Internal Revenue; was appealed to the Board of Tax Appeals, 11 B.T.A. 877; then appealed to the U. S. Circuit Court of Appeals, 33 Fed. (22d) 53; and finally to the U. S. Supreme Court on writ of certiorari, 281 U. S. 264, which affirmed the Commissioner's authority to turn down an accounting system not in general use.

[14] Including the Tanners Council of America, the American Petroleum Institute, and others.

[15] Borrowing money against inventories in order to pay dividends gives no escape from the tax, because the money used later to repay the borrowings will have to be recorded as undistributed earnings, and as such will be taxable.

account, thus (perhaps inadvertently) establishing a reserve to be drawn down in the case of inventory losses in subsequent years.

Business-men are therefore feeling the squeeze of the undistributed earnings tax and bending their efforts to enumerate the reasons why a portion of their incomes should not be distributed. It comes to many of these as a novel idea—the significance of which they have never appreciated—that a portion of their so-called income in years of rising prices has never been expendable.

A certain group of industries has access to an easy method of avoiding the perplexities of inventory gains and losses. These are the industries which have the possibility of forswearing both inventory gains and losses through hedging operations upon a futures market. The inventory gain upon goods owned is directly cancelled by the loss upon the future commitment.

But hedge operations take the form of contracts which are often left outstanding over a considerable period, to cover a succession of transactions in actuals. In order to take account of such a circumstance, the Bureau of Internal Revenue has issued a ruling to the effect that profits and losses on outstanding hedges may be calculated on a cumulative basis in order to permit them to offset the inventory loss or gain against which they are matched.

In other words, a flour miller who sells a carload of flour and buys a carload of wheat on the same day does not have to buy in the hedge contract against the flour and sell a new hedge against the wheat purchased. He leaves his old hedge outstanding to cover the new wheat commitment, and is allowed to offset the inventory profit or loss on the flour sale by allocating the results of his hedge up to that date without actually closing the hedge.

In the ordinary operation in securities it would be impossible to take a profit or loss without actually closing out the commitment. This is the standard method of handling capital gains and losses. Nevertheless, we find—somewhat ironically—that the Bureau of Internal Revenue has ruled that the unrealized capital gain or loss on a hedge contract may be regarded as an "income" item, in order that unrealized inventory losses or profits may continue to be regarded (erroneously) as income items, rather than as unrealized capital gains or losses.

The tax authorities have, in other words, insisted that inventory profits be regarded as income, even to the extent of being inconsistent in their handling of capital gains and losses.

IV

Dr. Kuznets' estimates, presented in Table I, give an indication of the importance of changing inventory valuations as an element in business income. These amounts, which were frequently in excess of a billion dollars and reached a figure of six and three-fourths billions at the time of the

1921 price collapse, are certainly large enough to have a substantial economic influence. For the years 1933, 1934 and 1935 they represent an addition of more than five billion dollars to reported business incomes. During these same years the national income estimates show reported business profits and losses amounting to a net total profit of only about two billion dollars. In other words, the reported business profits of these three recovery years were less than half as great as the appreciation in inventories which business-men were including as a part of their incomes. This is shown in Table II, which presents Dr. Kuznets' data on business profits and losses for the years 1929-1935, before and after adjustments for changes in inventory valuation.

TABLE II.—ESTIMATED BUSINESS PROFITS AND LOSSES BEFORE AND AFTER ADJUSTMENT FOR CHANGING INVENTORY VALUATIONS, 1929–1935
(*million dollars*)

Year	*Business profits or losses unadjusted*	*Inventory revaluation included as income*	*Business profits or losses excluding inventory gains or losses*
1929	+8,552	− 712	+9,264
1930	+ 912	−4,331	+5,243
1931	−3,718	−3,308	− 410
1932	−6,193	−1,520	−4,673
1933	− 881	+2,440	−3,321
1934	+1,257	+2,131	− 874
1935	+3,382	+ 785	+2,597

The first column summarizes what business-men *thought* their incomes were; and the third column indicates the approximate amounts of depression losses and subsequent gains that would have been recorded if they had excluded inventory gains from income, by one of the methods discussed above.

In spite of the importance attached to the inventory profits matter by those who are at all aware of it, the zeal of this group has so far failed to make serious inroads into the more or less sacred fields governed by tax regulations and accounting orthodoxy. Perhaps it is a result of the lethargy of government with respect to changes in tax rulings which has prevented business-men from seeing any advantages from revised accounting methods. Or perhaps it is merely the complacency with which both business-men and the government have come to accept the rules governing our accounting methods as an infallible guide to the measurement of true profits.

It is this last point which is of greatest importance to the business-cycle theorist. Business-men are currently making vital decisions on the assumption that their books are providing a record of realized or expendable earnings. Insofar as their actions are influenced by their failure to understand the fictitious nature of inventory gains,[16] they are likely to make decisions

[16] An eastern manufacturer, discussing the importance of inventory profits in his business, assured the writer that he realized inventory profits were fictitious, but he needed them because *he expected to use them to build his new plant.*

which will lead not only to a dissipation of the resources of their own business, but also to an accentuation of the booms and depressions of business as a whole.

Inventory profits are not represented as a basic cause of the trade cycle since they would play no part in an economy not already affected by changing prices. But as soon as increasing or decreasing prices affect the value of commodities held in inventories, there is developed a chain of events which constitutes a powerful cumulative factor in the cyclical swings. It has already been shown how the individual business-man, believing that his inventory gains are real profits, is led to extend his business on the basis of them. He may attempt to spend or distribute them, borrowing money for the purpose; he may use them to expand his business, often borrowing against his inventories or against his other assets for this purpose because he feels his business is unusually profitable; or, finally, he may bid up market prices still farther because the profitableness of the business has made a seller's market. Meanwhile, the inventory profits continue to pile up as a result of any of these acts. (It is one of the paradoxes of inventory profits that they are a result of increased costs, not of decreased costs.)

How do these typical decisions of business-men correlate with the various well known explanations of the business cycle? It can be shown briefly that the failure to recognize the fictitious nature of inventory gains contributes to the cumulative effects cited in nearly all the explanations.

For instance, there can be no doubt that inventory gains lead to a false sense of optimism. Moreover, there can be little question but that such optimism leads to *mistaken judgments* and actions on the part of many business-men. The false guides provided by the conventional income statement in times of rising or falling prices help to carry business psychology to extremes of over-optimism in periods of price advance and drag it to the depths of despair when prices fall.

Inventory profits are a factor in *credit expansion*. If profits were calculated on a replacement cost basis (as under the base-stock, or last-in first-out plans), then the value of the normal supply of goods in process would change very little from one year to the next. But if profits are calculated upon the conventional basis as required by the Bureau of Internal Revenue, a part of the profits recorded at the end of the year will have gone back into inventories which cost more than the materials used in the goods sold. In other words, the cost-of-sales item covers only the actual cost of the goods sold; it includes no allowance to cover the increased cost of replacing the inventories used up. This difference usually comes either out of undistributed profits or out of borrowings.

The business-man, believing that he is keeping his spending within the limits of his profits, will seldom hesitate to borrow against his inventories in order to "finance his business," or distribute its earnings. He is not generally aware that he is distributing not earnings but borrowed money, and

that the borrowings are impairing his equity in the stocks of goods necessary for conducting his business.

The first year of the undistributed earnings tax has provided a good example of the use of credit in order to distribute inventory profits. This large unexpendable element in taxable net income was undoubtedly a primary reason why dividend distribution served to impair working capital positions of corporations, forcing them to borrow at the banks, or to make non-cash distributions.

That the credit expansion growing out of efforts to distribute inventory profits can reach unhealthy proportions needs little proof. Each price rise means higher valued inventories, so that inventory profits establish the borrowing power needed for their own (apparent) distribution. Although banks regard inventories as a most liquid asset upon which to extend credit, it will be found that the liquidity they offer is largely superficial. The goods themselves may be sold, but the use of the money to repay loans, rather than to replace the goods, would naturally put most firms out of business or at least in the hands of receivers. Such situations are, of course, common during periods of business recession when the collateral value of the inventories is fast melting away because of price declines, and creditors must press for repayment of loans. The declining inventory values are reflected in inventory losses (actual losses in terms of conventional accounting) which are the counterpart of the earlier inventory gains.

The *maladjustment between prices and costs* plays a prominent part in many business-cycle explanations. The business which computes its profits on the basis of conventional rather than replacement costs is likely to show a profit during periods of rising prices simply because it is currently selling goods made from raw materials purchased at past prices. The margin provided by this disparity (which exists even where *current* prices of raw materials and finished products remain strictly in line) is recorded as a profit, notwithstanding the fact that most or all of it goes back to replace the raw materials at higher prices. Manufacturers, sensing profitable operations, become aggressive bidders for raw material, even paying higher prices than are warranted by current markets for finished products. They plan to pass on the higher price as soon as the higher-cost materials are ready for sale. And on a rising market, they are very likely to secure their higher price, only to reinvest it in still higher-cost materials. Under such conditions it requires only a tapering of the price advance before we have the phenomenon of "costs overtaking prices." That is, the cost of goods currently emerging from the production process continues to go up (because more and more expensive raw materials entered them) for some time after the advance in the current market has been arrested.

Since inventory appreciation ceases at this point to contribute its increment to profits, a tendency toward retrenchment—even before prices actually

decline—is understandable. If this is sufficient to bring a weakening of prices, then the cumulative effects of inventory losses come into play. In the buyers' market which follows, it is impossible to recover the actual costs of goods offered for sale because buyers are unwilling to pay more than the replacement cost. The losses may be entirely inventory losses, if prices never fall below replacement costs; but their effects are none the less real to the business-man who does not understand their fictitious nature, or has made no preparation for them.

The *over-investment* theory may not appear to be directly related to inventory profits, but even here there is a clear contribution to the cumulative development of over-investment in times of recovery and under-investment when prices and business recede. Most businesses rely upon profits for a part of the funds needed for growth. Moreover, they are inclined to measure the prospective profitableness of a new investment on the basis of the current results their business is showing. If new investment follows profits, it receives a strong and cumulative stimulus from the profits arising out of inventory appreciation. This, of course, continues only up to the point where credit (based in part upon inventories) is strained, or where prices cease to add their increment to inventory values and hence to reported profits.

One theory—that which bears the various trademarks of *under-consumption,* over-saving, or under-spending—is likely to lose some ground in the face of Dr. Kuznets' revelation (as shown in Table I) of the volume of so-called business savings which were not savings at all. We have been in the habit of calculating our "national income produced" by a method which includes inventory appreciation. Since inventory gains are neither consumable nor income, it is clear that consumption is not falling as far short of its potential maximum in a period of rising prices as would be indicated by our superficial measures of undistributed earnings.

This is, of course, only a partial list of business-cycle theories; no mention has been made of overstocking and inventory accumulation, nor of overspeculation and a number of others. But there is hardly a business-cycle explanation in which it cannot be demonstrated that the failure to recognize the fictitious and unexpendable nature of inventory gains provides an energetic twist to the tail of the spiral.

These gains, which are confined to account books, go as they come, without adding or deducting from our true national income. But the fact that they are interpreted as true income—and are so rendered in our accepted methods of accounting and tax levying—makes of them a balloon. They are blown up and add their lifting power to each inflationary boom; and they are, in turn, among the first to be punctured at the termination of the wild ride.

V

It has been pointed out that the present cost-or-market method of valuing inventories is arbitrary, that in many cases—where materials in process cannot be traced by lot, or where average costs are used—the costs now employed involve a fiction, just as the accountant's formulae for depreciation or depletion are not only arbitrary but fictitious. There should therefore be no objection to a change in accounting methods on the ground that the use of current replacement costs is arbitrary or fictitious. The objections that carry any weight appear to sift down to two questions: (1) are the proposed substitute accounting methods practicable; and (2) would such methods provide a better measure of business income?

The first question is for the accountants. Suffice it to state that their devices have been in satisfactory operation in a number of organizations.[17] The barriers in the way of adapting such methods to the peculiar problems in other industries do not seem insuperable.

Upon the second question, the foregoing discussion has attempted to indicate the reasons why unrealized inventory gains are not true income in any economic sense, and why the failure to recognize this fact not only leads business-men to pursue unwise business policies, but has also led to tax laws which practically require the dissipation of corporate working capital. Finally, and most important of all, the failure to recognize the fictitious nature of inventory profits must be given more than a minor part in explaining the wide amplitude shown by business fluctuations.

HENRY B. ARTHUR

Swift & Company
Chicago, Illinois

[17] See especially the annual statements of the National Lead Corporation which has been using the normal stock method since 1914. This company's experience is discussed by Mr. H. T. Warshow in "Inventory Valuation and the Business Cycle" in the October, 1924, issue of the *Harvard Business Review,* vol. iii, no. 1.

See also *Uniform System of Accounts for the Oil Industry* adopted by the Board of Directors and published by the American Petroleum Institute, 50 West 50th St., New York City. This system includes an outline of "last-in first-out." In addition, similar methods have been drawn up for the tanning industry by the Tanners Council of America, but not yet approved by the members.

THE REASONS FOR PRICE RIGIDITY

Paper presented at a Round Table Conference of the American Economic Association at Atlantic City, December 29, 1937.

An analysis of price-indexes covering depressions since 1837 shows that there was as much distinction between rigid and "administered" prices then as now, and that prices on the whole fluctuated less frequently. The distinction between price-movements of agricultural and industrial products was recognized by Adam Smith and his followers. It is partly caused by differences in the nature of the demand for them, not so much differences in elasticity in the usual sense, as changes in demand resulting from changes in the public's purchasing power. Whether such changes in demand affect output or prices the most depends on circumstances affecting supply, of which the most important are: (1) the inability of farmers to control their output because of climatic conditions, and (2) the relative unimportance of hired labor in agriculture. The increasing size of industrial units has not increased the rigidity of industrial prices, which are now less rigid than they were a hundred years ago.

The fact that some prices are rigid or sticky, while others are variable, has attracted a good deal of comment from economists in recent years. Some have tried to explain this fact, which they apparently assume to be a modern development, by the growth of large-scale enterprise. The term "administered price" has been invented to apply to prices which are kept rigid for an appreciable period of time by the determination of producers to maintain their profits. There has been some confusion concerning these administered prices. Although Mr. Gardiner Means, who invented the phrase, has repeatedly stated that he does not mean monopoly prices, other economists have reasoned as if administered prices were monopoly prices or at least quasi-monopoly prices. Apparently, however, Mr. Means regards administered prices as those which naturally exist in industries where producing units are large, even when there is no monopoly or collusion among producers. He states that the action of producers in maintaining prices is natural and to be expected while industry is controlled by the profit motive and concludes that the profit motive must be superseded by some other method of price control in order to avoid reduction of output and unemployment during depressions. He insists that the classical economists' theory of value and price must now be abandoned since it was based on the assumption of price flexibility, an assumption which he says was justified by the circumstances of the times in which the theory was formulated, but not by those of the present.

What mean admin

In appraising the value of these theories the first step is naturally to ascertain whether prices are now more rigid than they were fifty or one hundred years ago or whether a larger proportion of prices is rigid now than then. The second step would naturally be to verify the assumption that classical economists based their theories on universal price flexibility; and the third step would be to inquire why some prices are, or have been, rigid, while others were flexible. Mr. Means seems to have skipped the first two steps and consequently to have stumbled on the third.

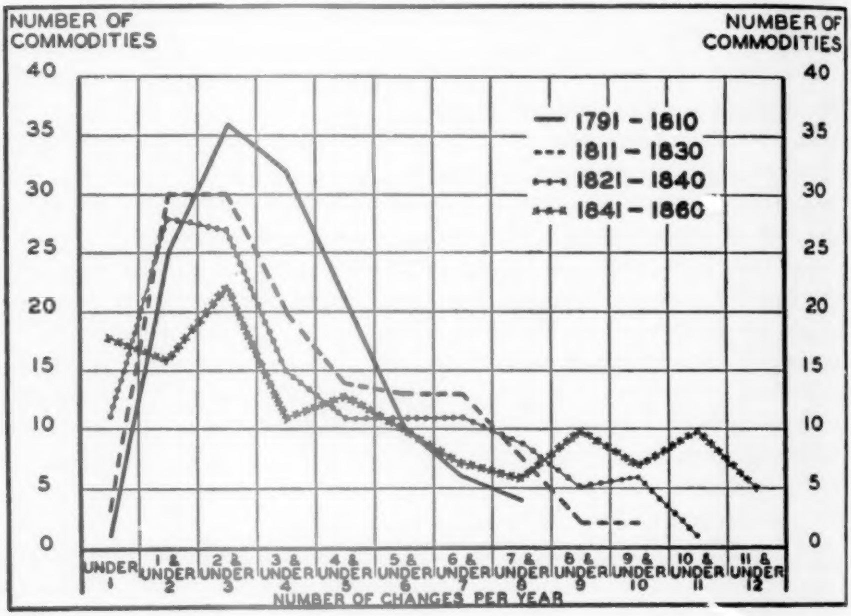
Criticism of Means

Taking these steps in order, we start with the chart published by Mr.

Means[1] which shows that of the 750 items in the Bureau of Labor Statistics wholesale price index, 125 changed practically every month from 1926 to 1933 and 95 changed less than five times in those eight years. The prices which changed infrequently were mainly those of manufactured articles, particularly capital goods and the products of large-scale in-

CHART I

DISTRIBUTION OF FREQUENCY OF MONTHLY PRICE CHANGES BY 20-YEAR PERIODS



dustries, according to Mr. Means, although he does not submit a list. He overlooked the fact that many finished articles ready for individual consumption but produced by small-scale industries also changed very little in price, both in this depression and in every previous depression of which we have record, such as bread, canned foods, shoes, many kinds of clothing, drugs, soap, tableware, tools, furniture, and many other articles of household use. In view of his assumption that the reason for price rigidity was the large scale of modern enterprise, it is strange that he made no attempt to compare price movements in the present depression with those in previous depressions, or even to verify his assumption that products of large-scale industries (excluding the regulated public utilities) were more

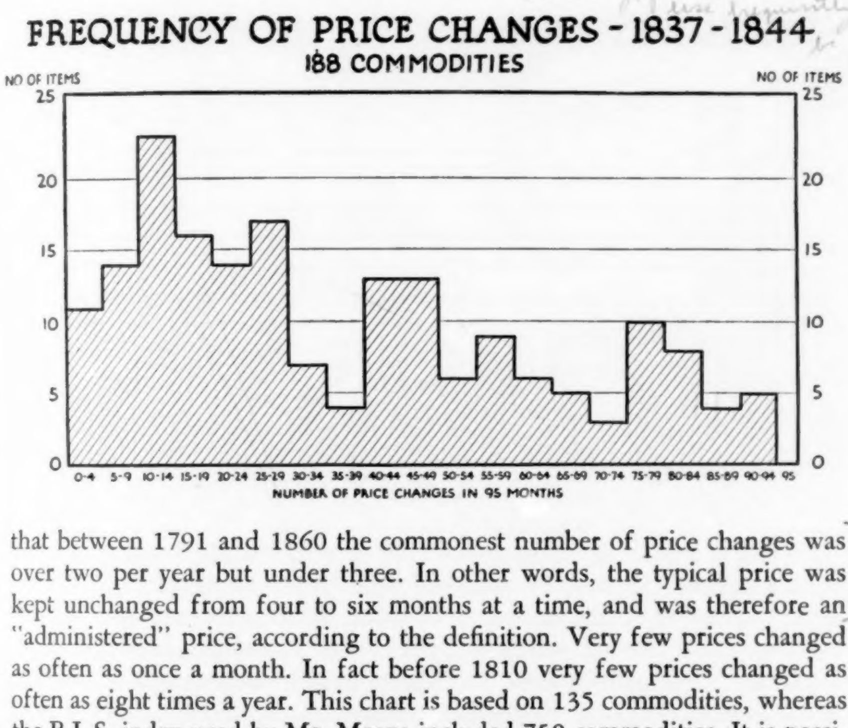
[1] In Senate Document no. 13, 74th Cong., 1st sess., "Industrial Prices and Their Relative Inflexibility."

rigid in price than the products of small-scale industries. If he had made such an attempt, he would have found that rigid prices always existed; that to a very large extent they were characteristic of the same articles of which they are now characteristic, and that there is even very strong reason to believe that a hundred years ago, when John Stuart Mill was writing his *Principles of Political Economy,* rigid prices were proportionally more numerous and more important to the consumer than now.

This statement is supported by the three accompanying charts: First we have in the study of *Wholesale Prices in Philadelphia*[2] a chart which shows

Perhaps, in a less integrated economy, prices could change less frequently & still be "flexible"

CHART II



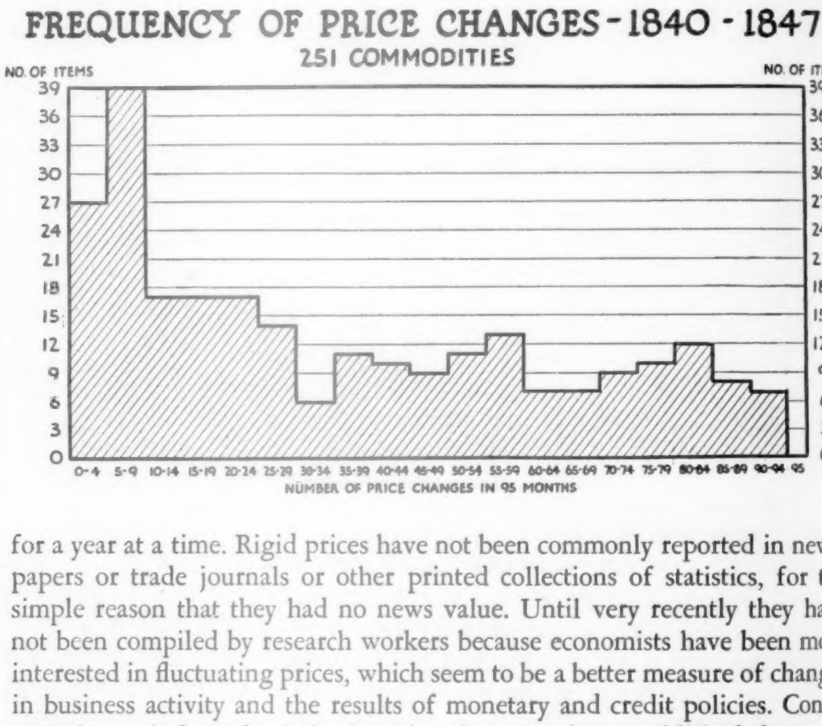
that between 1791 and 1860 the commonest number of price changes was over two per year but under three. In other words, the typical price was kept unchanged from four to six months at a time, and was therefore an "administered" price, according to the definition. Very few prices changed as often as once a month. In fact before 1810 very few prices changed as often as eight times a year. This chart is based on 135 commodities, whereas the B.L.S. index used by Mr. Means included 750 commodities. It is possible to construct, from the material compiled by Bezanson, Gray and Hussey, a chart covering the period of the great depression, 1837 to 1844, which includes 188 commodities. This has been done in Chart II. Comparing this with Mr. Means's chart, we find that the striking change that has taken place in the last 90 years is not the development of rigid prices but the development of extremely flexible prices. There were very few prices that changed every month in the depression of 1837-1844. Since then there

[2] Benzanson, Gray and Hussey (University of Pennsylvania Press, 1936), p. 55.

has been a great development of organized markets and price-reporting systems, with the result that prices that were moderately flexible 90 years ago are now extremely flexible.

It is true that according to this chart the number of prices changing less than ten times in eight years was a smaller proportion of the total 90 years ago than now, but that is only because of the fact that the 188 prices here recorded for 1837-1844 include only a small number of the commodities which are responsible for the rigid prices shown in the recent depression and practically none of the ones whose prices have been held unchanged

CHART III

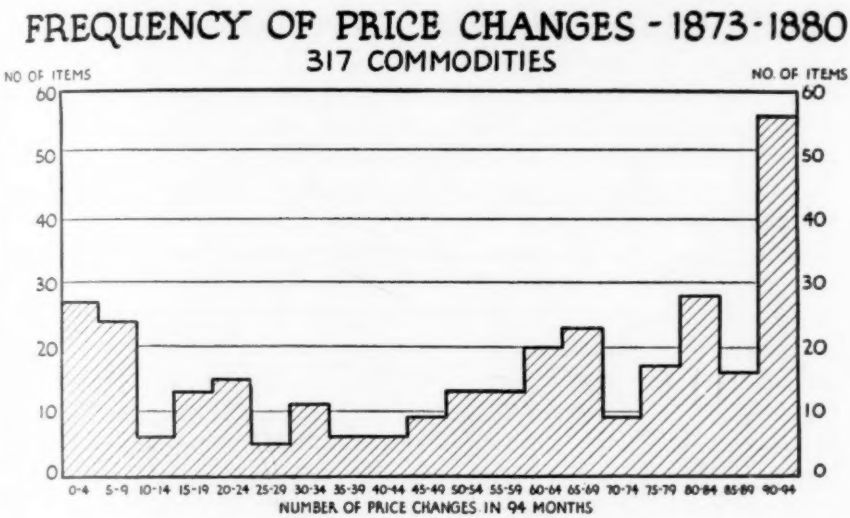


for a year at a time. Rigid prices have not been commonly reported in newspapers or trade journals or other printed collections of statistics, for the simple reason that they had no news value. Until very recently they have not been compiled by research workers because economists have been more interested in fluctuating prices, which seem to be a better measure of changes in business activity and the results of monetary and credit policies. Consequently no index of wholesale prices has ever been published for years preceding 1890 that gives adequate consideration to rigid prices.

If the rigid prices included in the B.L.S. index are examined, it will be found that about 200 of them relate to commodities which are not included in any index published prior to 1890. Some of these commodities did not exist; but many of them did, and they formed an important part of the consumer's budget. According to the information available in the *Aldrich Report* or elsewhere, they were probably as rigid in price 50 to 90 years ago as they have been recently. I have compiled a list of 184 commodities

whose prices were rigid in the depressions following 1837 and 1873, meaning by rigidity that for five years or more these prices changed on the average not oftener than once a year. If such prices are taken into account, the distribution of monthly price changes shown in Chart II would be greatly changed. The number of prices changing less than once a year would be greatly increased. It has been impossible to find price figures for many of these commodities before 1840, but Chart III attempts to show what the distribution of price changes was from 1840 to 1847 inclusive. It includes 182 monthly quotations taken from *Wholesale Prices in Philadelphia,* and

CHART IV



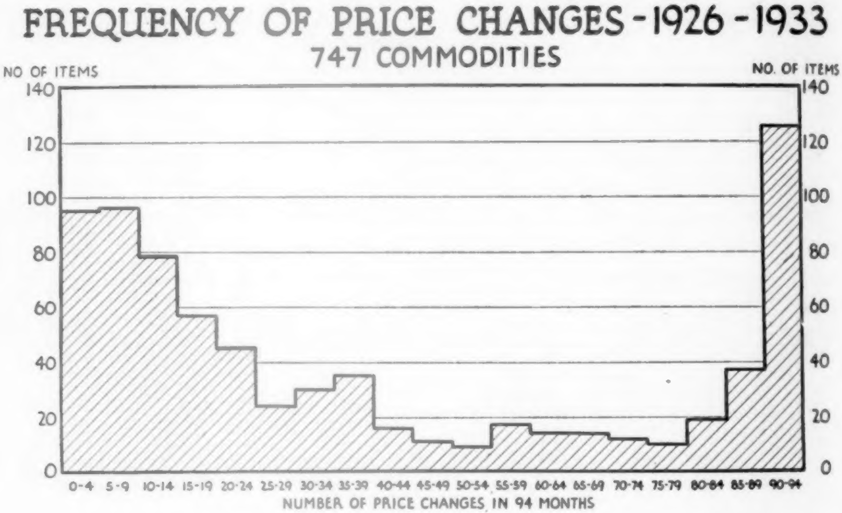
30 monthly quotations and 39 quarterly quotations taken from the *Aldrich Report.* The number of price changes shown by the quarterly quotations has been multiplied by three, although it is obvious that that procedure exaggerates the number of price changes. A few other quarterly quotations are available in the *Aldrich Report,* but have been omitted because they were duplications of some of the monthly quotations. Adding these 251 series together, we get Chart III which shows plainly that the commonest number of price changes from 1840-1847 was less than one a year. The economy was dominated by rigid prices; and the extremely flexible wholesale prices which have been so characteristic of recent years practically did not exist 90 years ago, except in connection with farm products.

Chart IV shows the result of a similar study of the depression 1873-1880. This is based on 33 monthly price series and 256 quarterly price series taken from the *Aldrich Report,* and 28 monthly price series obtained from

other sources. The changes shown in the quarterly price series have been multiplied by three, which makes the chart show a higher degree of flexibility than actually existed. Here we see a great increase in the number of extremely flexible items, but rigid prices are still a large proportion of the whole.

In Bulletin No. 39 of the Department of Labor, 234 monthly price series are given covering the boom and depression of 1890-1897. The proportion of these that showed no change, or less than five changes, or less than nine changes in eight years was larger than the corresponding proportions

CHART V



shown for 1926-1933 by Mr. Means's charts and figures. If a larger number of prices had been available doubtless the proportion of rigid prices would have been even greater, because the prices included in recent years but omitted in the '90's include a large proportion of rigid ones.

The fact that some prices were subject to frequent fluctuations while others were almost, if not absolutely, uniform from 1890 to 1901, was commented on by Carroll Wright in Bulletin 39 of the Department of Labor (March, 1902, p. 216); and W. C. Mitchell in his 1921 report on index numbers emphasized the sluggish movement of prices of manufactured articles from 1890 to 1913 (B.L.S. Bulletin 284, pp. 41, 47, 53). In his book *The Behavior of Prices* published in 1927, Professor Frederick C. Mills published U-shaped diagrams similar to that of Mr. Means, based on 206 commodities. These diagrams showed that from 1890 to 1913, and from 1922 to 1925 the commonest number of price changes was less

than once in ten months. A thorough study of rigid prices from 1890 to 1933, by Don D. Humphrey, appeared in the *Journal of Political Economy* for October, 1937. He shows that the relative flexibility of agricultural and industrial prices has not changed since 1890.

There can be no doubt that in this country ever since 1790 our price structure has included a large number of prices that remained unchanged for months or years at a time, side by side with prices that changed monthly, weekly, daily, or in recent years even hourly. Such figures as are available for England in the eighteenth and early nineteenth centuries show that there also the prices of manufactured goods frequently remained unchanged for long periods, and never fluctuated as widely as the prices of agricultural products. The prices paid by hospitals for milk, salt, blankets, hats and shoes remained unchanged for many years at a time.

The fact is then that rigid prices have always been important. Were the classical economists aware of that fact? A study of their texts makes it impossible to doubt that they were. Adam Smith very plainly stated, "That the price of linen and woolen cloth is liable neither to such frequent nor to such great variations as the price of corn, every man's experience will inform him."[3] J. S. Mill had a good deal to say about the effects of custom in preventing price fluctuations in certain industries, as well as the effect of differences in the flexibility of demand. He also emphasized the point that the pure theory of political economy was based on the assumption of competition and that in the actual world competition even in wholesale markets did not always exist, and in retail markets was comparatively rare. In other words, there is no reason to suppose that actual conditions conformed any more closely to the theorist's ideal a hundred years ago than they have done recently. In fact there is strong reason to believe that competition has more nearly approached the theoretical ideal in recent years than it did in the time of Smith and Mill. That, however, is a subject which cannot be gone into here. The fact that all prices did not fluctuate to the same degree was well known to the economists of the early nineteenth century. In fact it was one of the reasons why they objected to Jevons' use of index numbers to measure the purchasing power of money. It was a matter of common knowledge that wages did not fluctuate with the price of commodities; that manufactured goods and agricultural goods did not move together; that the price of bread, after it was released from governmental price-fixing, did not change as much as the price of wheat.

To assume that men like Smith, Ricardo and Mill were not aware of these facts is preposterous. To assume that their theory of value depends on the existence of extreme price flexibility with output practically unchanged is not only to misinterpret their text, but to fail in understanding

[3] *Wealth of Nations*, Everyman edition, vol. i, p. 52.

the fundamental justification of what is known as the laissez-faire system.

The classical economists attached more importance to what they called normal price than to market prices. They maintained that there was a tendency for market prices to conform after a lapse of time to a normal price, and that the normal price was determined by cost of production except in cases where the supply was fixed. They recognized that the time required for market prices to conform to normal prices varied between industries, and especially that agricultural prices could be expected to conform to normal on the average only over a long period of years. However, they insisted that this tendency to conformity with cost of production was at all times in operation, working itself out through the attraction of profits when the market price was above normal and the desire to avoid losses when the market price was below normal. The whole justification of the free-price system consists in the fact that if consumers are unable or unwilling to pay prices high enough to cover the cost of production of a given supply the output of that commodity will be reduced; and similarly if consumers are able and willing to pay a price that results in a large profit the output of that commodity will be increased. Thus the demands of the consumers directly influence the nature and volume of production.

It was the belief of the advocates of laissez-faire, which has been justified by over a hundred years of experience, that this would result in a larger output conforming better to the wants of the consuming public than a system of government price-fixing and production control. To assert that the decline in output of certain industries caused by the inability of producers to obtain prices sufficient to cover their cost of production is evidence that the classical economic theory of value no longer fits actual conditions, is absurd. Classical theory rests on the assumption that with declining demand, unless at the same time costs of production decline correspondingly, the output would be reduced. One is at liberty to maintain that the classical economists were wrong in trying to justify a system of individual initiative and free prices, but one is not justified in maintaining that they expected prices to fall far enough when demand declined to avoid the necessity of reducing output. Only in cases where the supply was incapable of reduction did the classical economists expect the effect of declining demand to work itself out wholly through a change in price. Only in such cases is the supply curve absolutely vertical.

Why have the prices of some commodities regularly been less flexible than the prices of others? There are many reasons both on the side of supply and on the side of demand. Adam Smith pointed out that the producers of agricultural products could not control their output because of weather conditions and therefore the market price of corn, wine, oil, hops, etc., would be liable to great fluctuations. Their market price "will sometimes fall a good deal below and sometimes rise a good deal above

their natural price."[4] As for the products of spinning and weaving—"while the effectual demand continues the same, the market price of the commodities is likely to do so too and to be either altogether, or as near as can be judged of, the same with the natural price." His definition of effectual demand was "the demand of those who are willing to pay the natural price of the commodity, or the whole value of the rent, labour and profits which must be paid in order to bring it thither."[5] His definition of "natural price" was that price which "is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labour and the price of the stock employed in raising, preparing and bringing it to market, according to their natural rates." Smith also pointed out that the fluctuations of the market price below the natural price varied

according as the greatness of the excess (of the quantity brought to market) increases more or less the competition of the sellers, or according as it happens to be more or less important to them to get immediately rid of the commodity. The same excess in the importation of perishable, will occasion a much greater competition than in that of durable commodities; in the importation of oranges, for example, than in that of old iron.[6]

Fluctuations of the market price above the natural price, according to Smith, depend on either the greatness of the deficiency of supply or the wealth and wanton luxury of the purchasers and their estimate of the importance of the commodity to them. The effect of deviations of the market price from the natural price is to cause producers to increase or diminish the supply brought to the market. Smith stated that the market price may in some cases be kept for a good while above the natural price if the high profits of producers do not become known to possible competitors, or if the costs of production are low because of secret processes, or the possession of unusually productive soil or situations or monopolistic privileges. The market price of any commodity, Smith said, can seldom continue long below its natural price. The person whose interest is affected would immediately feel the loss and either withdraw so much land, or so much labor, or so much stock from being employed thereon, that the quantity brought to market would soon be not more than sufficient to supply the effectual demand. This at least would be the case where there was perfect liberty.[7] He mentions, however, the possibility of a workman's inability to obtain other employment, with the effect that, for the lifetime of a generation, wages in a given branch of manufacture may be less than the natural rate.

Aside from what Adam Smith said, it is apparent that there are great differences between agriculture and manufacturing and between different

[4] *Wealth of Nations*, vol. i, p. 52.
[5] *Ibid.*, p. 49.
[6] *Ibid.*, p. 50.
[7] *Ibid.*, p. 55.

branches of manufacturing, with regard to the factors that influence the rapidity of price changes, both as to the speed of adjustment of market price to natural price and as to changes in the natural price. Besides the influence of weather conditions and the perishability of that part of the product which is already in the market, which were mentioned by Smith, there is the financial strength of the seller, *i.e.*, the necessity he is under to obtain cash quickly to meet urgent obligations. The price of the product at any time depends on the supply in existence or expected soon to be forthcoming, but the amount that will regularly be forthcoming is determined by costs. The costs may be broken down into direct cost and overhead cost. Direct cost may be out-of-pocket cost, such as the wages of hired labor, which is a very important element in most branches of manufacturing but not so important to most farmers since they depend to a large extent on their own labor or that of their families. Moreover, although the laborers employed in factories are paid in cash and their rates of wages are very rigid, partly because of custom and partly because of union regulations, the wages of farm laborers are partly paid in food and lodging and even the part paid in cash can be more easily reduced in bad seasons. Another element in direct costs consists of book or deferrable costs, such as depreciation. Farmers are more inclined to ignore such costs, partly because their bookkeeping is not so careful as that of manufacturers and partly because they feel that they have no choice in the matter, since their farms are also their homes, and they have no alternative occupations.

The overhead costs consist partly of out-of-pocket costs such as office salaries and costs of sales promotion. These items are important to manufacturers; sales promotion may be more important in bad times than in good; but farmers have few costs of this sort. A second kind of overhead costs is book or deferrable costs such as depreciation and obsolescence. A third kind of overhead costs consists of the entrepreneur's share, *i.e.*, payment for his services and profits on his investment. Sometimes even interest on borrowed capital may be included here, since the lender may be obliged to agree to forego some of his claims when business is bad.

It is obvious that some of the items just mentioned cannot be greatly reduced during depression, whereas others can. The proportion that can be reduced is usually greater in agriculture than in manufacturing, because the overhead is proportionally greater and because a larger proportion of the costs are not out-of-pocket costs but can be deferred or even dispensed with. The extent to which farmers and business-men will dispense with remuneration for their own services and capital depends partly on their belief as to the probable length of the depression and partly on the difficulty of abandoning the enterprise or diverting the plant to some other use. Both farmers and business-men will produce at a loss for several years if they think that by doing so the value of their equity will eventually be

greater than what they could obtain for it by selling out now. The income-tax statistics show, beyond any possible doubt, that most of the business concerns in this country were producing at a loss in the depth of the depression. It has sometimes been suggested that if they had reduced the selling price further, they would have sold a larger quantity of goods and thereby increased their profits; but if they were selling their goods at less than direct costs, the more they sold the greater would have been their loss, and even if the prices they obtained were slightly more than enough to cover the direct costs, it would frequently be true that the amount available for their overhead could not have been increased by reducing the prices because sales would not have increased enough to make up the difference.

Some theoretical discussions have been based on the assumption that, if a 10 per cent production price brought about more than an 11 per cent increase in sales, the amount available for profits would be increased. That would very rarely be true. If a certain quantity of an article sells at a price of $1.00 per unit and 75 cents of that price is necessary to cover direct costs, then it might be that reducing the price to 90 cents per unit would result in an increase of 11 per cent in sales; but since the margin available for overhead on each unit sold would be only 15 cents instead of 25 cents, an increase of 11 per cent in the amount sold would not increase the amount available for overhead but would reduce it by one-third. In order to avoid reducing the amount available for overhead, a reduction of 10 per cent in the selling price must bring about an increase of 67 per cent or more in the volume sold, which is of course a very unlikely result. No business can continue for more than a few years if it does not meet its overhead costs, nor for more than a few months if it does not meet its cash outlays. Of course, if the previous price has been so high that the overhead included a large amount of profit in the strict sense, that profit can be dispensed with and the concern can go on just breaking even for several years; but overhead consists only to a small extent of profit. Office salaries, sales costs, depreciation and obsolescence cannot be ignored for long. Consequently, there is a very narrow margin within which the price of manufactured goods can be reduced during a depression, unless direct costs can be reduced. These direct costs consist mainly of labor and material; and a large part of the material ultimately breaks down into labor costs. Consequently, as long as hired workers in industry refuse to accept wage reductions while farmers on their own farms continue to work with practically no current returns for their own services, there must be a big difference between farm products and factory products in the extent of the downward readjustment of their prices to changes in demand.

One more point may be made with reference to conditions of supply.

Classical economists have recognized four kinds of supply under competitive conditions—fixed supply, and supply capable of increasing either at a constant cost, an increasing cost, or a diminishing cost. Agricultural goods are typically produced under conditions of increasing cost in the long run, but in any given crop period (one to three years) are practically fixed in supply, irrespective of the wishes of the producers. Consequently the adjustment of demand to supply within the crop period must be entirely by means of price. Over a longer period reduction of output has a general tendency to reduce costs of production per unit, by eliminating high-cost producers, and thus permits a reduction in selling price. Manufactured goods on the other hand are frequently produced under conditions of constant cost or decreasing cost (increasing returns). Reduction of output is usually possible within a few months, but has little tendency to reduce costs. These distinctions were well explained by Mill, Marshall, Taylor and other well-known classical economists.

There are also differences in the nature of the demand for farm and factory products. These demands differ in elasticity as the term is used in the textbooks, *i.e.*, at any given time a given proportionate change in the prices will have a different effect on the amount sold. They also differ in the extent to which they vary from time to time, from one phase of the business cycle to another. These differences depend partly on the fact that they do not all appeal to the same classes of consumers and that the incomes of different classes may not alter at the same rate. Farm and factory products differ also in the urgency of the demand for them on the part of any one class of consumers. This depends largely on the possibility of going without or of using a substitute. It also depends on the durability of the product.

Obviously if an article like an automobile has in good times a normal life of three years in the hands of one owner, that life can be increased to four years or five years without much difficulty, if the owner desires to economize. On the other hand, most articles of food will last for one meal only in good times or bad. The durability of consumers' goods like automobiles is shared also by many producers' goods, and this factor of durability is one of the important reasons why the capital-goods industries suffered a greater falling off in production than the consumers' goods industries in this depression. Producers' goods also suffer from greatly reduced demand during depressions because they are bought only when the purchaser expects to be able to use them profitably. If he has no expectation of profit he cannot be tempted to buy, even by a drastic reduction in the price. Whatever may be the case in prosperous times, in depressions the demand for producers' goods becomes very inelastic.

Aside from the conditions affecting the rigidity of normal price, the procedure of publishing market prices has for at least a century been such

as to make recorded prices of manufactured goods more rigid than those of farm products. Manufacturers are compelled to announce in advance what they expect to charge, frequently before they have any product ready for sale. They have to inform their salesmen and dealers and in some cases the buying public. They print price lists and advertisements. Necessarily prices so announced cannot be changed frequently. Such price lists are usually in effect for three months or more. But this is no new phenomenon. Ever since manufacturers first began to sell elsewhere than at the factory, and to employ travelling salesmen, and to contract with wholesalers and jobbers, it has been necessary for them to announce prices and to stick by their announcements, or if they diverted from them to do so secretly.

For the most part the recorded prices used by statisticians are the publicly announced prices, which may not always have been the prices actually paid by favored customers. But agricultural prices are not announced in advance (except by the New Deal government). The records indicate what was actually paid in a market where thousands of producers disposed of their whole output in one or two transactions; or else, in recent years, the prices are records of the offsetting guesses of hundreds of speculators as to what the market price is going to be in a few hours or weeks. Naturally, the records show that prices of manufactured goods remain unchanged for months at a time, while prices of farm products vary daily. Since the prices of manufactures are set by the makers at a point that, as nearly as they can calculate, covers their costs with as much profit as conditions in the industry permit, they probably conform more closely at any given time to what classical economists called "natural prices" than do the prices of farm products, except in the case of monopoly industries.

Summarizing, we may say then that the elasticity of demand for a product determines whether a reduction in the intensity of demand, *i.e.*, a shift of the demand curve to the left, must result in a great change in the amount sold or the price obtained, or only a small change. The nature of the costs of production determines whether the adjustment required by changing demand shall be mainly in price or in quantity supplied. As far back as we have any records it has usually been the case that the adjustment in the case of agricultural goods has been mainly in price, and the adjustment in the case of manufactured goods mainly in quantity supplied. This phenomenon has nothing to do with the large size of modern business concerns. It rests mainly on these two facts: (1) Farmers for natural reasons cannot control their output very closely. (2) Hired labor is a more important component of the cost of manufactured goods than of the cost of agricultural products, and the price of hired labor is not so easily changed as the price of a farmer's own labor.

summary

Finally, whether the readjustments in price required by changing demand shall take place daily or weekly or monthly or quarterly or annually,

depends on the extent to which demand and costs can be foreseen and production controlled, and for that reason changes in industrial prices have usually been much less frequent than changes in agricultural prices since the earliest time for which records exist. Whether the recent discovery by certain economists and politicians of a phenomenon that was common and generally known in the eighteenth century is justification for discarding an economic system based on the profit motive, individual enterprise, and free prices, is a question that every economist must answer for himself. In my opinion it is no more important and no less ridiculous than the discovery by Molière's bourgeois gentilhomme that he had been speaking prose all his life.

RUFUS S. TUCKER

Detroit, Michigan

POLITICAL ECONOMY versus INDIVIDUALISTIC ECONOMICS

In numerous instances economists have recognized that policies which seem appropriate for private individuals and certain branches of the private economy are unsuited for the economy as a whole, and they have sharply criticized conclusions arrived at through reasoning by analogy from the case of the private individual to that of the nation in general. Yet, during the depression, many economists have committed similar errors, particularly in reasoning about the proper price level, the proper wage level, and the proper expenditure program for both the private and public economy to pursue. Especially has the reasoning of some economists favoring a reduction in the general level of wages been subject to such error. Techniques that are appropriate for analyzing problems of individualistic economics may be well-nigh useless in solving the broader problems of political economy. For such broader issues an understanding of social psychology may be of more value than skill in higher mathematics or in refined reasoning say of the *ceteris paribus* type.

"It is very false Reasoning to make general Conclusions from particular Cases." Francis Rawle, said to have been the first writer on political economy in America (1726).

There are numerous and various causes of false conclusions in economics. This paper deals with but one source of economic error, that involved in extending to society in general conclusions that are valid only for a particular person, product or industry. With economists freely offering advice on national policies, this source of erroneous conclusions in political economy deserves more attention than has hitherto been devoted to it.

Throughout the development of the "science," economists have been prone to fall into the practice of reasoning from a particular case or cases to the general situation, as though policies that were "sound" and appropriate for a part of the economy were the most fitting ones for the nation as a whole to pursue. The results of such reasoning usually seem "sound" because they correspond so well with the lessons of everyday experience and appear to the layman as simple common sense. This may be one of the reasons why economists of late have been so inclined to recommend policies for the nation that are "sound" for a small sector or segment of the private, acquisitive economy but may be "unsound" for the economy as a whole, including governmental activities.

A number of examples should make clear the sort of errors that arise from attempts to reason from the particular to the general in economics. The first examples cited will consist of policies which economists have come to recognize as wise for individuals to follow but not suitable for the nation as a whole to pursue. These examples will be followed by a discussion of certain depression and labor issues in which it would seem as though many economists have fallen into the type of error that, in the previous instances, they detected in the reasoning of others.

I

The individual who is hard up knows that his own economic difficulties would be solved if he had more money. Reasoning from his own situation, he naturally assumes that, in the same way, the nation as a whole would be

better off if it had more money. The nation's economic difficulties seem to him to be simply the aggregate of the difficulties of all of its citizens; and the answer to his problem seems to him to be the answer to the same difficulties suffered by others—namely, that they should all have more money. What is more natural, therefore, than to assume that, if the government or the banks increase the country's supply of circulating media (the money supply), the financial troubles of its citizens will disappear?

The mercantilists believed that a nation becomes wealthy in the same way that an individual merchant does, by accumulating large sums of money. This was to be done by having the country's total sales exceed its total purchases, giving rise to a "favorable" balance of trade. Economists now recognize that a nation should not attempt to follow such mercantilistic policies even though they may be the correct policies for its individual merchants to pursue.

It is generally recognized that producers or sellers in a single line of business may, if the demand for their product is inelastic, gain in wealth and raise their own standard of living by restricting production and limiting supply. But no one would argue that a country, with diversified industry, could raise its standard of living by a general application of such restrictive policies. Particular restrictions may help particular groups, but general restriction would be disadvantageous to all.

To an individual banker it seems as though a bank can expand its loans and deposits only to about the same degree that it receives cash deposits or reserves. The individual banker, from his own experience, is therefore prone to dispute the economist who maintains that an increase in member-bank reserves permits the banking system to expand its deposits say four or five times the amount of the increase in reserves. This issue has, in the past, been vigorously argued by bankers and economists, the bankers drawing erroneous conclusions because they were reasoning from a particular bank to the banking system as a whole.

It has been said that economics is only common sense dressed up in technical language. But in each of the above cases common sense, reasoning from an individual situation, would lead one to the wrong answer for the general situation.

II

Let us turn now to some current and more controversial issues. The first issue concerns the question of wage rates. In September, 1936, Professor Sumner H. Slichter published an article entitled "Selling More Labor," in which he said:[1]

> In any event, our common sense should have warned us that raising the price is not likely to increase the sales of any article and that there is no reason to expect labor to be different in this respect from all other articles. It is not likely

[1] *Atlantic Monthly,* Sept., 1936, p. 324.

to be the one and only thing which can be sold in greater volume by increasing the price.

Many economists have recently made similar statements although usually in a less bald form and clothed in more technical terms.

It is true that, if the price of one commodity is reduced relative to the price of other commodities, the sales of that commodity may increase, especially if no further reductions in the price of the commodity are anticipated. But it is not at all certain that more products will be sold if all prices are reduced by the same percentage.

Individual price movements help to adjust supply to demand, but that is not so true of movements of the general level of prices. In all probability, during the period of transition to a lower level for all prices (including wages, interest, and rents) less goods will be sold. More goods are likely to be bought on a rising price level than on a falling one. Customers are prone to restrict their purchases on a falling price level or when they anticipate a drop in prices. The author found from his study of the return of the Norwegian and Danish currencies to the pre-war gold parity during the period from 1925 to 1928 that the resulting 50 per cent drop in the general level of prices was sufficient to cause a major business depression in those two countries at a time when the rest of the world was enjoying a period of marked prosperity.[2] The discussion to this point has assumed a closed economic system during a period of transition from one price level to another. The same reasoning would apply, however, in the case of a country on the gold standard if prices in all the other countries on gold were reduced as rapidly as in the single country.

In the case of Norway and Denmark, the physical volume of sales seems to have been no larger at the lower level of prices, after the transition period, than at the higher level. This was largely due to the fact that the total of all individual money incomes tended to be reduced as rapidly as prices were reduced. The 80 to 100 per cent increase in the gold value of the currency in both of these countries, of course, tended to assist in reducing the money supply and the total money income of the population.

If all money incomes fall off to the same extent that all prices fall, there is little likelihood that a larger volume of goods and services will be sold in the long run at a lower price level than at a higher price level. In the long run, there is no particular reason why the velocity of circulation of money should be greater at a lower than at a higher price level. Therefore, the long-run effect of reducing all prices is in part dependent upon what happens to the money supply in the meantime. In recent depression periods, the money supply in most countries seems to have fallen faster than the velocity of circulation of money. That was true for 13 of the 19 countries studied

[2] *Cf.* the author's article, "The Gold-Parity Depression in Norway and Denmark, 1925-1928," in *Jour. Pol. Econ.*, Aug., 1937.

by the Economic Intelligence Service of the League of Nations during the period from 1929 to 1935.[3] In 8 of these 13 countries the money supply declined by one-third or more during this period. In a surprisingly large number of these countries the decline in the index for the money supply corresponds very closely indeed with the decline in the index of the country's price level.[4] It is very doubtful whether a reduction of prices, accompanied by a similar reduction in the money supply, will lead to a larger volume of sales even in the long run.

The same reasoning would seem to apply, in large measure, in the case of wage rates for labor. A reduction of money wage rates in one locality, in one craft, or even in one industry may, by permitting a reduction in the prices of products in that locality, line of business or industry, result in increased sales and increased employment of labor in the locality, occupation or industry. The situation is on par with the case of depreciation by a small country of the exchange value of its currency in order to make its products relatively cheap to foreign purchasers. But a general reduction of wage rates, like a general reduction of prices, might lead in the short run to just the opposite result (a decrease in the volume of sales), and in the long run to no increase in sales volume over the previous figure so long as the money supply and money incomes fall with the general reduction in wage rates. A general reduction resembles the case where all countries depreciate the exchange values of their currencies by a corresponding amount.

The total labor income constitutes about 65 per cent of the national income paid out in this country, and over 80 per cent of the income paid out in manufacturing and construction represents compensation to employees.[5] In other words, two-thirds of all costs are expenses for wages and salaries; in manufacturing and construction the figure is four-fifths of all costs. A general reduction in wage rates and salaries will, therefore, affect costs and selling prices to a marked extent. In fact, if selling prices are not affected at all by the reduction in wages, it is difficult to see how total volume of sales would increase and with it the demand for labor. The primary purpose of reducing wage rates is, therefore, to stimulate the demand for labor through a reduction in the selling prices of the products, because in most highly mechanized industries the proportion of labor to capital equipment used cannot readily be changed to any degree over a short period of time.[6] Indeed, since labor represents some 70 or 80 per cent of the cost of pro-

[3] *Money and Banking, 1935-1936,* vol. i, *Monetary Review,* 1936, p. 55.

[4] This is true, for example, for the United States, Canada, Germany, Italy, Spain, Czechoslovakia, Poland and Norway.

[5] *National Income in the United States, 1929-1935,* U. S. Dept. of Commerce, 1936, pp. 30, 108, 121.

[6] Capital equipment, being a fixed cost, cannot readily be substituted for labor, which is usually a variable cost. Especially during depression, when some capital equipment is idle, little new capital equipment would be purchased because labor costs seemed relatively high.

ducing capital equipment (plant and machinery), the price of such equipment tends to vary directly with general changes in wage rates.[7] This fact tends to lessen the likelihood of the substitution of capital equipment for labor or *vice versa* as a consequence of general changes in the price of labor, though it does not entirely eliminate such a possibility. In large measure, therefore, the argument for a general reduction in wages involves the assumption that a reduction in the general level of prices will aid in stimulating the volume of sales and, consequently, the demand for labor. As the discussion of the possible effects of price-level reduction makes clear, the result is likely to be a decreased rather than an increased volume of sales in the short run and probably no greater volume of sales even in the long run.

Therefore, the conclusions concerning a reduction of wage rates seem to be much the same as the conclusions concerning the reduction of other prices. A wage reduction in a particular plant or in a particular industry may lead to more employment in that plant and industry, though it may also reduce the amount of employment in competing plants and industries. In this respect, localized wage reductions resemble price reductions to foreigners resulting from exchange depreciation by a single, small country. But if the area covered by the wage-rate reduction is very minute, it is not too erroneous to assume that elsewhere "other things remain the same," even though they may actually change slightly. However, to draw up a separate demand schedule for labor in each small section of the economy and to assume that a series of wage-rate reductions made simultaneously, or even successively, in a number of such sections of the economy will always result in more employment, is absolutely erroneous. The results of a general all-round reduction of wage rates in the same proportion are likely to be very different from the results of a reduction of wage rates confined to a particular industry or area. In such cases, one simply cannot assume that the whole is equal to the sum of its separate parts taken separately. J. M. Keynes stresses this point when he writes:[8]

> . . . the demand schedules for particular industries can only be constructed on some fixed assumption as to the nature of the demand and supply schedules of other industries and as to the amount of the aggregate demand. It is invalid, therefore, to transfer the argument to industry as a whole unless we also transfer our assumption that the aggregate effective demand is fixed. Yet this assumption reduces the argument to an *ignoratio elenchi.* For, whilst no one would wish to deny the proposition that a reduction in money-wages *accompanied by the same aggregate effective demand as before* will be associated with an

[7] This, of course, is not so true of land and, therefore, a rise or fall in the general level of wages relative to other prices is much more likely in the long run to cause a change in the proportion of factors used in agriculture than in manufacturing. The more industrialized a country is, the more difficult it is to change the proportion of factors, even in the long run, as a result of changes in the general level of wages relative to other prices.

[8] *The General Theory of Employment, Interest and Money,* 1936, pp. 259-260.

> increase in employment, the precise question at issue is whether the reduction in money-wages will or will not be accompanied by the same aggregate effective demand as before measured in money, or, at any rate, by an aggregate effective demand which is not reduced in full proportion to the reduction in money-wages. . . . But if the classical theory is not allowed to extend by analogy its conclusions in respect to a particular industry to industry as a whole, it is wholly unable to answer the question what effect on employment a reduction in money-wages will have. For it has no method of analysis wherewith to tackle the problem.

III

When business in general is declining, common sense would seem to indicate that the appropriate policy for individual business-men to pursue is one of retrenchment and curtailed expenditures. Those producers who expanded most during the preceding boom and those enterprisers who are carrying the largest inventories are most likely to suffer to the greatest degree during the downswing of the curves of general business and prices. Likewise, those banks that expanded their credit to the largest degree during the boom are in the most precarious position when depression sets in. The safest policy for any individual banker or business-man during the downswing is to become as liquid as possible. This the business-man does by curtailing expenditures and investment and by reducing inventories; the banker by calling loans, selling securities in his portfolio, and curtailing new grants of credit so that he will not suffer a clearing-house drain. The more liquid an enterpriser becomes just before and during a business recession, the more he will gain by the decline in prices, especially if he spends when prices have reached the low point. To the individual during a depression it seems "sound" policy to balance his budget by curtailing expenditures as sales fall off; for during a business downswing any indebtedness incurred because of an unbalanced budget becomes a greater and greater real burden as prices fall and business declines.

When demand in general is declining, a particular producer may be certain that any increase in his own outlays or expenditures will not cause a corresponding increase in the market demand for his particular product or products, though it may have a favorable effect on demand in general. The same is true of expansion by a particular bank during a period of general credit contraction. The individual producer or banker, because he represents such a minute section of the total economy, is powerless to change, by his own policies alone, general business conditions or even to cause a significant shift to the right in the demand schedule for his own product or products. From the individual's point of view, the appropriate policy seems to be to contract rather than to expand, to swim in the same direction with the general business stream rather than against it. Of course, if business-men in general pursue a policy of retrenchment, that very fact tends to cause general business to decline further and makes their policies

seem to be the appropriate ones under the circumstances. Their own policies of curtailment help to deepen the depression and to intensify their own difficulties. Though in the face of shrinking money incomes and expenditures further curtailment of expenditures may be individually "sound" business, judged by its effect on society in general and the national economy it seems essentially "unsound." Policies that seem so sound to individuals—to reduce expenditures, to increase one's liquidity, and to save although the savings lie idle—are suicidal when followed by everyone. Though it may be "sound" for an individual bank to contract its credit when the banking system as a whole is contracting credit, such contraction by banks tends to destroy part of the supply of circulating media, to depress the price level, to reduce asset values, and to cause insolvency and destruction of the banks. Therefore, bank credit contraction, which seems necessary to the self-preservation of the single bank, only adds to the difficulties and number of failures throughout the whole banking system. As Governor M. S. Eccles explains:[9]

> The fact of the matter is that . . . the economics of the system as a whole differs profoundly from the economics of the individual; that what is economically wise behavior on the part of a single individual may on occasion be suicidal if engaged in by all individuals collectively; that the income of the nation is but the counterpart of the expenditures of the nation. If we all restrict our expenditures, this means restricting our incomes, which in turn is followed by a further restriction in expenditures.

The issues raised here are very similar to those raised by a monopolistic restriction of production on the part of a firm or firms manufacturing products with an inelastic demand. Though the producers in such an industry may benefit by restricting production and limiting supply, economists agree that such action, in the long run, will be harmful to the whole community because it reduces the standard of living of the population. Similarly, curtailed expenditures accompanied by unused savings and increased liquidity, spell decreased production and a declining volume of sales. As in the case of general price and wage reductions, curtailed expenditures and a flight to money or liquid assets tends to cause the banking system to contract its credit, thereby reducing the volume of circulating media or the money supply. Contraction of the money supply further reduces demand, unless offset by a corresponding increase in the velocity of its circulation. Though some people talk of stored-up demand due to the postponement of repairs and replacements during a depression because prices are falling, it is obvious that, in a money economy, money alone furnishes individuals the wherewithal to make demand effective.

The central government is in a better position to buck the general move-

[9] "Controlling Booms and Depressions" in *The Lessons of Monetary Experience* edited by A. D. Gayer, New York, 1937, p. 6.

1938] *Political Economy versus Individualistic Economics* 63

ment in economic activity than is any single business unit. The government's income is not dependent upon voluntary spending by individuals. Its income is derived from taxation rather than sales in a market; and its expenditures ordinarily are not held up to the test of a profitable monetary return, which is the test that business management has to meet. Furthermore, the central government's expenditures normally amount to more than the expenditures of any single firm or even any single industry; and the federal administration usually has more influence on the public in general than does the management of any firm or group of firms. The weight of the federal government's debt does, of course, increase with a decline in the general price level, but that fact alone does not justify a demand that the government balance its budget and refrain from increasing its outstanding indebtedness. Unlike a private firm or industry, the federal government has considerable influence on the price level through its control of the currency and, through the central bank, its control over the banking system.

For these and other reasons, the demand that governmental operations and policies conform to policies that private individuals and firms are pursuing is likely to be unwise, at least judged by the welfare of the population as a whole. What is "sound" advice for small sections of the private economy may be "unsound" for the central government or the nation as a whole. During the last depression a number of national governments followed an expansionist policy, deliberately unbalancing their budgets, with a remarkable degree of success, judged by the rapid return of more prosperous economic conditions within their boundaries.[10]

One may, therefore, question the wisdom of the demand that all governmental units follow the policies of private individuals and business during a business recession. But if the governmental units are local ones, such advice may prove "sound." Where no large section of the total public and private economy is under the control or influence of any one administrative body, it will prove difficult for any operating unit, public or private, to expand operations while all other units are curtailing expenditures. In areas where the central government owns or exerts control over important sections of the total economy, attempts to stem a downward movement in economic activity by governmental action and policies are more likely to be successful than where the operations of the central government play a less significant rôle in the total economy. That, in part, explains why Soviet Russia has been less afflicted by business depressions than have the more democratic, capitalistic countries. It is likely to prove much more difficult to overcome depressions by governmental action in democratic nations than

[10] *Cf.* League of Nations, *Monetary Review* (1936), pp. 27-41, 56-58; Bertil Ohlin, "Can the Gold Block Learn from the Sterling Block's Experiences?" in *Index,* vol. xi, March, 1936, pp. 57-56; Richard A. Lester, "The Challenge to Orthodoxy" in *People's Money,* vol. i, Sept., 1935, pp. 129-131 and 145-147; and "Sweden's Experience with 'Managed Money,'" in *Index* (Svenska Handelsbank), January, 1937 (suppl.), pp. 21-25.

in countries under political dictatorship, especially if the expenditures of the central government in the democratic country are but a small portion of the total public and private expenditures. This is one of the reasons why some economists suggest that a program for expanding public works should first be put into operation after the bottom of a business depression has been reached, that government spending cannot prevent extreme depression and deflation but can only accelerate recovery. Though democratic governments have some control over the currency and the money supply, they usually exert relatively little influence or control over the rate at which the money circulates.

IV

Economists, as the subject matter of economics has become more departmentalized and specialized, have been prone to look at one section or segment of the economy and to draw conclusions about particular firms or industries with little regard to the general situation or to the effect that the application of their conclusions would have on the general situation. It is much easier to comprehend and reason about a separate section of the private economy, since a smaller number of factors and variables seems to be involved, especially if one assumes that other things (the economy as a whole) remain the same. If "other things" are likely to change, it is more difficult to give an unconditional answer to a problem involving a particular industry or firm. The question then, in part, becomes one of social psychology, a subject in which economists may not be experts.

In discussing the effect of the introduction of labor-saving devices, for instance, it is easy to assume that the national income and total demand are stable and then to say that, if the demand for the product is highly elastic, no workers will be displaced by the introduction of the device in a competitive industry. Actually if more money is spent for purchasing the product of that industry, that fact may have many repercussions on the economy as a whole. The answer for the industry is easier than the answer to the question how the introduction of the labor-saving device will affect the aggregate demand and the total volume of sales of all industry. And with an inelastic demand for the product of the industry in which the labor-saving device is introduced, an answer is still more difficult to give because of the large number of variables involved.

With specialization on the part of economists there has been an increasing tendency for them to reason about particular firms and industries and to apply the resulting conclusions to the general situation. There has likewise been some tendency to assume that all sections of the economy, including governmental activities, should always be operated as private industry is administered. In short, reasoning applied to and conclusions derived from the individualistic economy have erroneously been assumed to be appropriate *in toto* for questions of political economy in the broadest sense of that term.

Because of such attempts to apply the individual approach and viewpoint to broad social and national questions, much economic literature and discussion has proved to be, if not so much nonsense, at least rather futile and fruitless. Broad social and national questions of an economic nature are not only complicated by numerous variable factors, and therefore are not subject to the "other things remaining the same" type of reasoning, but these "other things" are often determined, not by precise calculations and mathematical equations, but by factors of social psychology. Concerning matters of social psychology economists may not qualify as authorities and, therefore, perhaps should not be too positive in their judgments.

RICHARD A. LESTER

Princeton University

RECENT EXPERIENCE WITH COMPULSORY ARBITRATION IN AUSTRALIA[1]

It is open to question whether the Australian system of compulsory arbitration which has been in effect now for over thirty years has made for a reduction in industrial disputes. In their awards affecting working conditions, the arbitration courts have provided protection and fair treatment to the workers and removed some of the causes of industrial friction without seriously hampering the operating efficiency of private enterprise. Against this is the probability that the system, if it has not actually heightened the cleavage between capital and labor, has not served to bring them closer together. Strikes have persisted, although perhaps with lessened intensity. The Australian arbitration system has been more successful in the original determination and subsequent adjustment of minimum wages. The arbitration courts have succeeded in eliminating excessively low wages and in maintaining a considerable degree of wage flexibility in the face of a very strong and articulate trade-union movement. In addition to making semi-automatic downward adjustments in wages to the cost of living in the depression, the Commonwealth Arbitration Court decreed a special reduction of 10 per cent in the basic wage in January, 1931, in order to meet the crisis.

Introduction

Australia has had a comparatively long experience with compulsory arbitration; and there are enough similarities between Australia and the United States to make it worth while examining the Australian experience. Although Australia has a population of less than seven million, the Australian continent is approximately the same size as the United States and affords a wide variety of climatic and occupational conditions. The population, however, is much more homogeneous than in the United States with about 88 per cent British stock and a very small colored element. Fostered by a high tariff, industrial production in Australia has increased to a point where the occupational division of the population is quite similar to that in the United States. According to the census in 1933 only 20 per cent of Australian breadwinners were engaged in agricultural, pastoral and dairying industries.[2] The Australian constitution, furthermore, was partially modelled on the Constitution of the United States, and provides for a federal Supreme Court which has preserved a somewhat similar division of powers between the federal and state governments.

The Development of Compulsory Arbitration

The development of the arbitration system in Australia dates back to 1895, when the Labor Party added to its platform a new plank of compulsory arbitration. There were two principal reasons in Australia for the introduction of public regulation into a field of industry hitherto covered with but moderate success by free contract—the desire to avoid the conse-

[1] A substantial part of the material in this article was obtained in Australia in 1934-35 on a Sheldon Fellowship from Harvard University.

[2] Industrial production accounted for 32 per cent, commerce and finance 17 per cent, transport and communication 8 per cent, and professional and miscellaneous occupations 23 per cent.

quences of industrial disputes, and the wish to prevent the payment of sweated wages.

The Commonwealth Court of Conciliation and Arbitration, which is the most important arbitration tribunal in Australia, was established in 1904 in accordance with the provision of the federal Constitution empowering the Commonwealth Parliament to make laws with respect to "conciliation and arbitration for the prevention and settlement of industrial disputes extending beyond the limits of any one state." In addition to the commonwealth government each state has its own industrial laws and its own industrial tribunals. The Commonwealth Court has no power to arbitrate in disputes that are entirely confined to one state. Such disputes come under the jurisdiction of the state tribunals. This dual system of arbitration has rendered the settlement of industrial disputes and the regulation of wages and conditions of work exceedingly complicated.

When the Commonwealth Court was first established, it was thought that only a few industries of a national character, such as shipping and shearing, would come under its jurisdiction. But inasmuch as the Commonwealth Court generally awarded higher rates of wages and better working conditions than the state tribunals, it soon became very popular with the unions. The state trade unions found that by forming federated unions and serving claims in regard to wages and working conditions on employers engaged in the same industry in more than one state they could create an interstate dispute and come within the jurisdiction of the Commonwealth Court. By 1929 it was estimated that about 420,000 workers were affected by Commonwealth awards.[3] "All other workers, to the number of about 1,580,000 have their wages and working conditions determined by the industrial tribunals of the state in which they live.[4]

Because of the existence of both state and federal tribunals it is difficult to present a clear picture of the arbitration system as a whole. In general, however, the procedure consists of:

(1) The fixation of minimum wages for unskilled and skilled workers in almost all occupations throughout Australia.

(2) The legal recognition of collective agreements relating to wages and working conditions entered into voluntarily. The courts encourage employers and organizations of employees to make industrial agreements and to file them with the court for the purpose of giving them the force of awards of the court.

(3) The failure to reach a voluntary agreement in a dispute leads to a compulsory arbitration procedure. The parties to a dispute appear before the court and evidence is taken from both sides. The court then makes an award which is binding on both parties. Penalties are fixed for violation of the award of the court.

[3] George Anderson, "Regulation of Industrial Relations" in *Annals of the American Academy of Political and Social Science,* Nov., 1931, p. 157.

[4] *Ibid.* The only exception to this is that some of the rural workers such as farm hands have not been brought under the jurisdiction of either the federal or state tribunals.

In addition to the Commonwealth Court, Queensland, New South Wales, South Australia, and Western Australia each has an arbitration court consisting of one or more judges. In Victoria and Tasmania there is no central arbitration court. Instead, industrial relations are regulated by wages boards appointed for the various industries in the state and consisting of an equal number of representatives of employers and employees and a chairman. In Victoria, but not in Tasmania, there is a Court of Industrial Appeals for deciding all appeals from a determination of a wages board.

Recent Experience with Australian Arbitration

The record of compulsory arbitration in eliminating strikes and lockouts has been somewhat disappointing. Statistics of strikes and lockouts are given in Table I for the years 1916-1935; and an analysis of cases settled without a stoppage of work is presented for the same period in Table II. Although a great number of cases reached a peaceful settlement through the arbitration machinery, the number of strikes and lockouts that took place in the period was also great.[5] However, it is easy to obtain a distorted picture of the extent of these disputes.[6] More than half of the loss of working days in disputes since 1916 has occurred in mining, an occupation which accounts for only a little over 2 per cent of the total breadwinners in Australia.

The major weakness of the Australian arbitration method which is yet to be satisfactorily corrected, is its tendency to encourage litigation and advocacy, which prolongs cases and congests the courts.[7] The arbitration courts proceed less formally than the regular law courts and in many cases awards are made by mutual agreement in conference with the judge rather than by a decision handed down by the judge. But so long as the arbitration courts are presided over by judges who have been trained as lawyers, some of the atmosphere of a law court is bound to prevail. Both sides to a dispute are inclined to present lengthy briefs containing tenuous arguments which take the time and patience of the presiding judges to analyze. Some of the arbitration court judges attempt to cut short evidence which is bordering on the irrelevant. On the other hand, Judge Dethridge, the present Chief Judge of the Commonwealth Court, has made it a practice not to interfere

[5] There were 6,829 industrial disputes between 1916 and 1935. These have been classified by the Commonwealth Statistician according to causes as follows: wages, 31 per cent; employment of particular classes of persons, 28 per cent; working conditions, 18 per cent; trades unionism, 7 per cent; hours of labor, 3 per cent; sympathetic, 3 per cent, and other causes, 10 per cent.

[6] Mr. E. J. Riches, in an analysis of working days lost through industrial disputes in 14 countries from 1922 to 1932, has indicated that Australia is not conspicuously a "land of strikes." *Econ. Record,* Dec., 1933, p. 231.

[7] The Commonwealth Attorney-General stated in 1928 that the average waiting time of the cases then before the Commonwealth Court was approximately eight months. Once before the Court, cases sometimes lasted as long as nine months. See Sir Lennon Raws, "Compulsory Arbitration in Australia" in National Industrial Conference Board, *Picture of World Economic Conditions, 1932,* p. 245.

TABLE I

ANALYSIS OF STRIKES AND LOCKOUTS, AUSTRALIA, 1916–1935

Year	*Strikes and lockouts*	*Workers directly involved*	*Working days lost*
1916	508	128,546	1,678,930
1917	444	154,061	4,599,658
1918	298	42,553	580,853
1919	460	100,300	6,308,226
1920	554	102,519	1,872,065
1921	624	120,198	956,617
1922	445	100,263	858,685
1923	274	66,093	1,145,977
1924	504	132,569	918,646
1925	499	154,599	1,128,570
1926	360	80,768	1,310,261
1927	441	157,581	1,713,581
1928	287	82,349	777,278
1929	259	88,793	4,461,478
1930	183	51,972	1,511,241
1931	134	34,541	245,991
1932	127	29,329	212,318
1933	90	26,988	111,956
1934	155	46,963	370,386
1935	183	44,813	495,124

Source: Commonwealth Bureau of Census and Statistics, *Year Books*.

at all with either side in the presentation of a case lest any shortening of procedure make one side or the other conclude subsequently that it had not been allowed to present all the evidence that was material and lest the impression be given that the judge had made up his mind beforehand.

Inasmuch as the judge is rarely well acquainted with the conditions in the industry in question, arbitration tends to become a battle of wits between opposing advocates. Moreover, many of the advocates apparently believe that their principals will not be satisfied that they have handled an arbitration case effectively unless they have advanced all possible arguments, good or bad.

Mr. R. G. Menzies, the present federal Attorney-General in Australia, describes the natural feeling of an advocate representing an organization of employees in the following terms:

> When I get into court, should I not fight like a tiger about everything, great and small, and regardless of industrial harmony, knowing full well that the weary-looking man at the end of the bench is taking down every word I am saying, and that it will be read at the Union's mass meeting next Sunday afternoon, and that it will be accounted to me for virtue?[8]

[8] G. V. Portus, ed., *Studies in the Australian Constitution*, p. 63.

the industry in which a dispute has occurred. The function of the Com

Table II

Awards and Determinations Made and Industrial Agreements Filed under Government Arbitration and Conciliation Methods, Australia, 1916–1935

Year	*Cases settled by*		*Total cases settled*
	Awards or determinations	*Agreements*	
1916	426	131	557
1917	319	251	570
1918	373	349	722
1919	427	282	709
1920	594	346	940
1921	422	442	864
1922	295	103	398
1923	306	125	431
1924	321	164	485
1925	320	182	502
1926	438	154	592
1927	353	137	490
1928	289	128	417
1929	187	109	296
1930	185	110	295
1931	412	112	524
1932	218	53	271
1933	267	64	331
1934	239	66	305
1935	368	99	467

Source: Commonwealth Bureau of Census and Statistics, *Year Books*.

In such an atmosphere the amicable settlement of industrial disputes is more difficult of achievement than it would be if the principals were sitting around a table and discussing a disputed issue where both parties had a thorough knowledge of the origin of the dispute and where it would be obviously futile to introduce irrelevant material.

This weakness of the system has been recognized in Australia and attempts have been made in recent years to deal with it through the establishment, in most of the states, of conciliation boards or committees. These have been used more effectively in some jurisdictions than in others.

In New South Wales the conciliation committees appointed by the government for each industry have become valuable adjuncts to the arbitration machinery. Each committee consists of an equal number of representatives of employers and employees together with a special Conciliation Commissioner who is chairman of all committees. If a strike or lockout is threatened, the Commissioner is given the power to summon the parties to the dispute before him and to investigate the causes of the disagreement. The Commissioner may elect to sit with or without the members of the committee for

the industry in which a dispute has occurred. The function of the Commissioner is to endeavor to bring the members of the committee to agreement with respect to the matters contained in any application to the Committee; or to bring to agreement the parties to the dispute where he is sitting without the members of the committee. When the Commissioner sits with the committee, a round table discussion ensues between men who are acquainted with the technical details of the industry. If an agreement can be reached on a part or the whole of the question in dispute, the agreement is forwarded to the Industrial Registrar. If the Registrar considers that it does not exceed the committee's powers, he assents to it, and it then has the effect of an award of the New South Wales Industrial Court.[9] Where no agreement has been reached, the Conciliation Commissioner must refer the dispute to the Court.

Wage Determination

The various arbitration acts in the Commonwealth and states give the arbitration court or wages boards power to prescribe minimum rates of wages.[10] The court fixes the lowest sum payable to unskilled workers and to the various classes of skilled workers, leaving to free bargaining between the worker and his employer the extra amount to be paid to a worker who possesses special skill or other special qualifications in his class.[11] While any worker in Australia has the right to refuse to work for any employer at the minimum wage, it is a violation of the Commonwealth Arbitration act for individuals in combination to try to compel employers to pay more than the minimum rate.

The Commonwealth Court also regulates hours of work for the workers that come under its jurisdiction. The general standard now accepted is 44 hours per week,[12] although awards vary according to the industry. It is not the practice of the Court to reduce wages in an industry on account of a reduction in the weekly hours worked in that industry.

The Commonwealth Court has a dominant position in the Australian wage economy because the state tribunals tend to follow its lead in the determination and adjustment of minimum wages. In the Harvester Judgment of 1907 Justice Higgins ruled that to be "fair and reasonable" a wage must

[9] The Industrial Court of New South Wales is known as the Industrial Commission but I have referred to it as the Industrial Court to avoid its being confused with the Conciliation Commissioner.

[10] "All the states and the Commonwealth, however, provide in their industrial legislation for the payment of rates of wages lower than the minimum standard rates to workers who are unable to earn such standard rates by reason of old age or infirmity." George Anderson, "Wage Rates and the Standard of Living" in *Annals of the American Academy of Political and Social Science,* Nov., 1931, p. 167.

[11] George Anderson, *Fixation of Wages in Australia,* p. 347.

[12] In New South Wales and Queensland hours have been limited to 44 per week. At the end of 1935 the weighted average working hours per week for all industries in Australia, excluding shipping and rural occupations, was slightly over 45.

be sufficient to satisfy "the normal needs of an average employee regarded as a human being in a civilized community."[13] The first minimum wage established in 1907 was 42 shillings per week for unskilled workers. This minimum wage for unskilled workers is known as the "basic" wage. It was determined originally to meet the needs of an unskilled worker with a wife and three children. Margins above this were provided for skill or for other special reasons.[14] The average unskilled wage in Melbourne at the time Justice Higgins gave his judgment was about 33 shillings a week.[15] The Harvester wage, therefore, represented a marked increase in the wages[16] of the workers who came under the awards of the Commonwealth Court. Since 1907 the tendency has been to bring an increasing proportion of employees under wage-fixing tribunals, but the basic wage has not been raised, except for a special increase of about 7 per cent in 1921. In order to maintain real wages from year to year the practice has grown up in the Commonwealth Court of adjusting wages to the cost of living every three or six months, according to the award, on the basis of a food and rent index number compiled by the Commonwealth Statistician[17] for the city or town in which the persons affected were employed.[18]

In the 1920's there was considerable criticism of the steadily mounting trend of nominal wages. This was a period in which the Australian tariff rose progressively. The tariff contributed to advancing the cost of living; and higher prices were in turn reflected in higher wages. As costs were raised, secondary industries applied for additional tariff protection, which was granted in a number of instances.

This vicious circle of mounting costs and tariffs was broken in the depression. Not only did the cost of living fall rapidly, thus reducing wages, but the Commonwealth Court declared in January, 1931, that the fall in the national income was so severe that some additional reduction in wages

[13] *Ex Parte H. V. McCay*, 2 Commonwealth Arbitration Reports, 1.

[14] The fixing of these margins has been one of the most difficult and least satisfactory aspects of Australian wage determinations. It has frequently been asserted that these margins have not been sufficiently high to induce enough workers to become skilled artisans. To this the Court has replied that a highly skilled worker could always command more than the minimum margin fixed by the award of the Court. However, in the majority of cases margins for skill have apparently tended to settle at the minimum rate which has given rise to considerable dissatisfaction among the skilled workers.

[15] George Anderson, "Wages Rates and the Standard of Living" in *Annals of the American Academy of Political and Social Science*, Nov., 1931, p. 168.

[16] Throughout this article I have used the term "wages" in the sense of "wage rates."

[17] A commission appointed in Queensland to examine the basic wage had suggested in 1925 that the chief guide to be followed by the Court should be the capacity of industry to pay rather than the cost of living. Capacity to pay was to be determined from figures showing changes in income per head, past production per head, and prospective production per head. The recommendation, however, was not followed. See J. B. Brigden, *Employment Relations and the Basic Wage*, University of Tasmania, 1925.

[18] There are marked variations in the cost of living in the different towns and districts of Australia.

was necessary. It therefore decreed a special reduction of 10 per cent in wage rates, to be put into effect immediately.

The special 1931 reduction in wages was made after a careful inquiry into economic conditions by the Commonwealth Court. The Court had been hearing evidence on the subject for several months and had examined a host of witnesses, including employers, trade unionists and economists.[19] It had been particularly impressed by a diagnosis made by Professor D. B. Copland of the loss of national income, in which he had stressed the necessity of spreading that loss equitably throughout the community.

In delivering judgment in January, 1931, the Court declared that the fall in the national income from the cessation in overseas borrowing had been approximately £30 million. This, coupled with a decline in export values of £40 million, had brought the direct loss in national income since 1928 to something approaching £70 million. The Court stated that the repercussions of this initial loss of national income could safely be said to exceed "50 per cent of the primary loss, making the reduced spending power of the community over £100 million, or in the vicinity of one-sixth of the average national income of the preceding five years."[20]

This was a fair estimate of conditions at the time. Australia had been able to sustain the internal price structure in 1920-30 by an increase in London bank loans, by dependence on London assets, and by large gold exports in excess of production; but these expedients had been almost exhausted. Nor did a renewal of overseas borrowing or higher export prices appear likely for a considerable time.

During the proceedings the labor government which was in power in the commonwealth sphere had attempted unsuccessfully to persuade the Arbitration Court not to make the cut.[21] On repeated occasions since 1907 labor had urged that the basic wage be raised. Inasmuch as the Court had persisted, except for the 7 per cent increase granted in 1921, in holding to the 1907 basic wage in the period of intervening prosperity, labor particularly resented the decree for a 10 per cent reduction. After the award was made, the government again intervened, the Attorney General requesting the Court to postpone the reduction in wages until May 1, on the grounds that the government was working out a plan for economic adjustment, to be completed shortly, which was primarily concerned with relieving unemployment. The Attorney-General added that any downward readjustment in wages in anticipation of this plan would result in unequal sacrifices and would create ill-feeling.

[19] At the time, the economists in Australia almost all favored a wage reduction.

[20] Commonwealth Court of Conciliation and Arbitration, *Basic Wage Inquiry,* 1930-31, p. 7.

[21] The government was not in a position, had it wished to do so, to force its will on the Court by legislative action because the Senate was in control of the non-labor parties which were in favor of wage reductions.

In dismissing this appeal the Court stated that not only did it consider the reduction of 10 per cent in real wages essential, but the reduction should be carried out promptly in the hope of checking the increase in unemployment, which had reached 23.4 per cent for the fourth quarter of 1930.

The January, 1931, award did not apply to all of the industries under the jurisdiction of the Commonwealth Court. The Commonwealth Arbitration Court can make awards only where a dispute exists. Before making the inquiry into the basic wage, the Court had notified all organizations under its jurisdiction that they might intervene in the dispute and come under the award, but not all availed themselves of this offer at the time. In February, therefore, another inquiry was instituted which covered most of the remaining industries under its jurisdiction, and with very few exceptions the Court applied the cut there also.

The Victorian and Tasmanian Wages Boards followed the Commonwealth Court's lead in wage adjustments closely in the depression. The other states, however, diverged in varying degree, and none of them brought wages down so far as the Commonwealth Court. The extent of the divergence in wage rates among the several states is apparent from the following figures:

Table III

	Movement of wage rates from year 1929 to September 1931 (per cent)		*Average real earnings of wage earners, including unemployed, June 30, 1927, to September, 1931*[1] *(per cent)*
	Nominal wage rates	*Real wage rates*[1]	
New South Wales	− 8	+ 8	−21
Victoria	−16	+ 4	−18
Queensland	−11	+ 8	− 5
South Australia	−16	+14	−20
Western Australia	− 9	+10	−19
Tasmania	−12	+ 2	−20
Federal basic wage	−26	−10	Not available

[1] Real wage rates have been calculated from the food and rent index-numbers alone. Because of the sales tax, the more complete "all-items index" computed by the Commonwealth Statistician would show a somewhat smaller increase in real wages.
Source: *Report of Conference of Commonwealth and State Ministers*, April, 1932, p. 35.

It is not certain how extensively the basic wage reduction of 10 per cent was applied. Of approximately 2,000,000 wage earners of both sexes and all ages in Australia in 1931, 769,000 adults were members of unions (federal and state) and of that number 646,000 were members of federal unions. But Mr. George Anderson has estimated that the reductions made directly by the Commonwealth Court applied to only about 400,000 workers.[22] In

[22] George Anderson, "Wage Reductions in Australia," in *Economic Record*, May, 1931, p. 118.

New South Wales, although most unionists were nominally under federal awards, through governmental and private arrangements the 10 per cent cut was not universally applied. There was also a noticeable tendency for wage earners to leave federal unions and join state unions in order to secure the higher wages declared by state tribunals.[23]

On the other hand, some wage earners, particularly in rural occupations where many of the workers are not under the jurisdiction of the arbitration courts, were forced through economic pressure to accept greater reductions than employees under the jurisdiction of the Commonwealth Court. The evasion of wage awards also tended to bring down the general level slightly more than the declared figure. One method was for the employee to supply a few materials with his work and make a contract for a fixed sum for a particular job; this procedure took him out of the jurisdiction of the arbitration court. Some employers violated award rates by making secret arrangements with their employees for a lower wage; but this practice was stamped out wherever possible. Employers' associations not infrequently made private investigations of companies suspected of undercutting awards; and if undercutting was proved, steps were taken to stop it. Trade unions, too, made it a practice to prosecute all such cases that came to their attention; in fact, any union which was discovered knowingly to have allowed such violation to continue would probably have been expelled from the Trades Hall. If violation was proved, the employer was liable for the full payment of back wages and a fine as well. There were cases in which workmen appealed to employers to give them odd jobs for a few shillings a week, and, after they had worked at these odd jobs for some time, applied to the arbitration court for back wages at the full award rate. Usually, in these circumstances, the employer was required to pay the full rate. As a result of all these measures, while there was some violation, it was not very extensive and was confined for the most part to small companies and individual employers.

The Commonwealth Court estimated in 1933 that about one-half the wage earners of Australia had received a cut of not less than 10 per cent in real wage rates. The judges were disturbed that the reduction had not been more general, and deplored the fact that they were powerless to do anything about it.[24] Table IV shows index numbers for nominal and real wage rates for the Commonwealth as a whole. The actual reductions were probably slightly greater than shown, because the official figures understate the fall in farm wages, which was greater than the average.[25]

There are available also index numbers of the rates of wages in different industries.[26] These show the standardizing influence of the Arbitration Court.

[23] Commonwealth Court of Conciliation and Arbitration, *Basic Wage Inquiry,* May, 1933, pp. 9, 10, 16.

[24] *Basic Wage Inquiry,* May, 1933, p. 10.

[25] See L. F. Giblin, "Farm Production and the Depression," *Economic Record, Supplement,* March, 1935, p. 42.

[26] See Commonwealth Bureau of Census and Statistics, *Labor Reports.*

Although the Australian system of wage fixation affords considerable general flexibility of wage rates in relation to the business cycle, it has not afforded much flexibility between industries. This apparently is the deliberate policy of the Court, for in almost all the fourteen industrial groups, into which Australian industries have been divided by the Commonwealth Statistician, wage rates reached their pre-depression high in the third quarter of 1929 and their depression low in the first quarter of 1933.[27]

TABLE IV

	Nominal weekly wage index numbers	*Retail price index numbers—food, groceries and rent (weighted average, six capital cities)*	*Real wage index numbers*	
			Full work	*Allowing for unemployment*
	a	*b*	*c*	*d*
1928	100	100	100	100
1929	101	104	97	96
1930	96	97	100	90
1931	87	84	103	84
1932	82	79	103	82
1933	80	76	106	89
1934	82	78	105	93
1935	83	81	102	96

a. The nominal weekly wage index numbers are based on the minimum wage prescribed in commonwealth and state awards for adult males, or, in cases where there is no award, on the predominant rate of wage as ascertained from employers and secretaries of trade unions. The index is a weighted average as of December 31 of each year.

b. The retail price index number is a weighted average for six capital cities of food and groceries (46 commodities) and rents for four- and five-room houses.

c. The index for real wages on a full work basis was obtained by adjusting the nominal weekly wage index number by the retail price index, and recomputing on the basis of 1928 as 100.

d. The index for real wages allowing for unemployment was computed by adjusting the weekly wage index numbers by an index of employment computed from trade-union returns. This was adjusted in turn by the retail price index number, and then recomputed on the basis of 1928 as 100.

Source: Commonwealth Bureau of Census and Statistics, *Quarterly Summaries.*

In the fourteen industrial groups the proportional decline in wage rates from the high to the low point was very similar. Among the three groups producing a preponderance of durable goods—namely, wood and furniture, engineering and metal works, and building—wages in the building industry fell in almost the same proportion as wages for all industrial groups, while in wood and furniture, and in engineering and metal works they fell

[27] The various indexes of business activity in Australia indicate that business turned down early in 1928 and reached the depression low toward the end of 1931. Thus despite quarterly adjustments of wage rates to a cost-of-living basis for many Australian workers, wage rates in general lagged considerably behind business activity.

somewhat more than the average. Although these three groups, taken together, showed wage reductions slightly greater than the average, the relief given was insignificant; and throughout the depression they had a high percentage of unemployment. Thus, in 1932, which was the worst unemployment year in the depression, these three groups showed an unemployment percentage of 37.1 per cent compared with the average for all groups of 29 per cent.[28]

The fact that wages in two of these depressed industries fell slightly more than the average is no indication that the courts singled out the durable goods industries for particular reductions in wages because of unusually depressed conditions. The arbitration system seeks standardization of wage movements rather than the application of special treatment to particular industries because of depressed conditions there. In 1908 Mr. Justice Higgins had laid down the principle that if a company could not pay the basic wage it ought not to be in business. Since that time the arbitration courts have always been unfavorably disposed toward requests for wage cuts merely on the ground that a particular industry was depressed. Normally, an exception to this has been made only when it was clearly shown that bankruptcy was inevitable unless some concession was made. In such cases the Court sometimes has reduced margins for skill, but it will not reduce rates below the basic wage for unskilled workers.

On three occasions between 1931 and 1935 the Commonwealth Court reviewed the basic wage reduction in response to applications by trade unions for the restoration of wages. In 1932, in 1933, and again in 1934 the Court refused to concede that there had been sufficient revival in industry to justify a full restoration of the cut. It also continued to deny the contention of the unions that higher wages would release purchasing power. No changes at all were made in 1932, but in 1933 there were some slight concessions. In that year, for instance, the Court decided to change the index number on which cost-of-living adjustments were made from an index based on food, groceries and rent, which covered only about 60 per cent of workmen's expenditures, to a more inclusive index number. This had not been done before because it was believed that statistics of clothing and miscellaneous household expenditures in the broader index number could not be determined with sufficient accuracy.[29] In 1933 the Court concluded that the index it had been using had come down more than the actual cost of living, and that the broader index, in spite of its imperfections, would

[28] Commonwealth Bureau of Census and Statistics, *Labor Report,* No. 23, p. 99. That the durable goods industries showed more unemployment than the consumer goods industries is evident, also, from the Bureau of Census and Statistics figures in the *Production Bulletin* on the number of hands employed in factories. These figures are on a different basis, and cannot be compared directly with the trade-union figures.

[29] There is still a difference of opinion among Australian statisticians as to whether the change was justified in view of these difficulties.

reflect more accurately a 10 per cent reduction in real wages. In 1934 a new basis was adopted by the Court in the method of calculating the basic wage. These changes in method in 1933 and 1934 had the effect of raising the basic wage by nearly 6 per cent.

In June, 1937, the Court declared that "the present degree of prosperity in the Commonwealth and the existing circumstances of industry made desirable appreciable increases in the basic wage." As a result, a prosperity "loading" was added which brought the new basic wage to a slightly higher level for Australia as a whole than it had been prior to the depression.

Thus, despite the political and economic strength of the labor movement in Australia,[30] wage rates were brought down very substantially in the depression without a great deal of industrial friction (see Table I). Although there were far fewer working days lost in disputes in the five years 1930-1934, inclusive, than in the boom period in Australia from 1923-1927, there were slightly more working days lost in disputes over wage questions in the depression period than in the boom period. Two-thirds of the days lost in the depression period were in 1930. While the radical Sydney Trades Hall Council urged a general strike to protest against the special 10 per cent reduction in the basic wage in 1931, the Australian Council of Trade Unions refused to endorse such a proposal.

Summary of Experience

When compulsory arbitration was established in Australia, it was hoped that the existence of the Court would promote more friendly relations between capital and labor and eliminate strikes. But labor in Australia has continued to show a strong sense of class solidarity, and strikes have persisted, although perhaps with lessened intensity. Yet both labor and capital are opposed to the abolition of the system and there is now very little open criticism of the Court except among the extreme sections on both sides. Some of the more radical element in the Australian labor movement feel that more could be accomplished for the workers by unrestricted collective bargaining. But most of the leaders in the labor movement believe that the arbitration system makes possible a higher general level of wages and better working conditions. Their opposition has taken the form of agitation for a change in the personnel of the federal court and for legislative amendments which would provide emphasis on conciliation and reduce legalism rather than for any drastic change in the system as such. And while there are employers here and there who have felt hampered by the arbitration system in the depression because it has restricted their power to cut wages, the majority of employers are grateful for the protection which the system affords against

[30] Since 1900 the Labour Party has been the aggressive driving force in Australian politics and has frequently been in power both in the states and in the Commonwealth government.

competitive wage cutting. Most employers in Australia apparently prefer to have minimum wage rates fixed and to feel free to concentrate their attention on other items of cost.

It is open to question whether the Australian arbitration system has made for a reduction in industrial disputes. In their awards affecting working conditions, the arbitration courts have provided protection and fair treatment to the workers and removed some of the causes of industrial friction without seriously hampering the operating efficiency of private enterprise. Against this is the probability that the system, if it has not actually heightened the cleavage between capital and labor, has not served to bring them closer together. Thus, the early development of compulsory arbitration in Australia has, to some extent at least, kept Australia from pursuing the American experiments in employee representation plans and union-management coöperation. While there can be no doubt that in many cases the existence of the arbitration system has prevented strikes, it is uncertain whether the same result could not have been accomplished more effectively by some voluntary system of arbitration set up within each industry as a result of a mutual agreement between employers and the unions in that industry.

The cumbersome and overlapping system of arbitration tribunals has inevitably proved a handicap in adjusting industrial disputes. Wherever it is possible to prove the existence of an interstate dispute, litigants dissatisfied with a state award have transferred their claims to the federal court, thus adding greatly to the complication and expense of arbitration. Yet, legislative attempts first, in 1926, to extend the powers of the Commonwealth Court and later, in 1929, to turn over arbitration largely to the state courts, both failed. Attempts at unification are necessarily extremely difficult to accomplish in a federal system where state rights are zealously guarded. However, the gradual extension of the jurisdiction of the Commonwealth Court and its increased prestige have tended to reduce overlapping in recent years.

If a unified system of arbitration were adopted in Australia under the general jurisdiction of the Commonwealth Court but granting considerable local autonomy to regional tribunals, it would be possible to test the potentialities of compulsory arbitration. If conciliation committees were appointed for the industries of each of the states, under the chairmanship of a commissioner, and given full power to settle all industrial disputes except those which concerned wages and hours, with no appeal from their decisions, the process of arbitration would be expedited and freed from much of its present legalism. If suitable commissioners could be found, such a system might show a distinctly better record in eliminating industrial disputes.

In wage determinations the Australian arbitration courts have succeeded in eliminating excessively low wages and in maintaining a considerable de-

gree of wage flexibility in the face of a strong and articulate trade-union movement. Although the labor movement has not accepted the Court's arguments in favor of wage reductions in the depression as valid, the discussion by the Court in 1931 of the necessity for wage reductions in view of the fall in the national income appears to have been of very considerable value in promoting an understanding of the economic situation of the country among a large section of the electorate. From the beginning of the depression the Court has taken more notice of fluctuations in economic conditions than almost any other official or semi-official body in the country.

Although doubts may be raised as to the desirability of adjusting wages automatically according to fluctuations in the cost of living without direct relation to the productivity of labor and the capacity of industry to pay, the cost-of-living principle is easily understood and is generally accepted as desirable by the Australian labor movement. It also provides a semi-automatic guide for the Commonwealth Court to follow under ordinary circumstances, although the Court has made occasional changes in real wages when it considered that general economic conditions demanded it. Thus real wages were raised in 1921 by 7 per cent, lowered in 1931 by 10 per cent, and raised again by about 6 per cent in 1933 and 1934 and by an additional 6 per cent in 1937.

Except for a short period in the 1920's there is not much evidence in Australian unemployment statistics to indicate that the basic wage has been fixed too high for the economic structure. Although the original basic wage established by Justice Higgins was considerably higher than the prevailing wage for unskilled workers at the time, its introduction had no perceptible effect on unemployment. It is quite possible, however, that in the five or six years prior to the depression, when the cost of living in Australia had risen substantially without an apparently comparable increase in the productivity of industry, the basic wage was too high. In the seven years 1922 to 1928 unemployment averaged 8.4 per cent, which was a definitely higher level than in the pre-war period. From 1907 to 1913 unemployment had averaged 5.8 per cent. The lowest percentage of unemployment after the war was 5.7 per cent, in the December quarter of 1926; but this was followed in successive quarters by 5.9, 6.4, 6.7, 8.9, 10.7, 11.2, and a peak of 11.4 per cent in the September quarter of 1928.[31] The sharp increase in 1928 can be accounted for by the decline in the price of wool and wheat, which started a business recession in Australia at the end of 1927.

Dr. F. C. Benham in discussing the unemployment question stated that "the Royal Commission on National Insurance found in 1926 that the greatest percentage of unemployment was among unskilled and casual work-

[31] The figures quoted are based on estimates submitted by the secretaries of the trade unions. They are not an entirely satisfactory index of unemployment since they represent only about 25 per cent of total wage earners, but they are the best index available for this period.

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ers." From this he concluded that the price of unskilled labor had been " 'fixed' somewhat too high." The unskilled worker was not producing enough in this period to make him "worth the basic wage to employers." And, Dr. Benham added, "The opinion may be offered that but for the large numbers of such workers employed by governments and local authorities (who can afford to pay more than the value of their services without showing a loss or closing down), unemployment in their ranks would have been much greater given the basic wages awarded."[32]

While it seems quite probable, therefore, that the basic wage was somewhat too high in the years immediately preceding the depression, informed opinion differs as to the desirability of the 10 per cent reduction in the basic wage in 1931. In delivering judgment at that time, the Court had admitted that "the prevailing air of uncertainty, the precarious state of public finance and continuance of the fall in price levels, local and universal, are responsible for much of the commercial and industrial stagnation."[33] The Court did not consider whether at that particular stage of the downswing of the cycle in Australia the demand for labor was elastic.[34] It is quite possible that under the existing economic and political conditions entrepreneurs were afraid to make forward commitments and that a large part of the reduction in wages went to paying off debts and building up bank balances, instead of into employing more labor. In reviewing its judgment in 1934, the Court admitted that it was "possible that the transferred spending power was not used by employers or capitalists quickly or abundantly." But the Court still believed "that the reduction certainly assisted many industrial concerns to weather the economic blizzard, thus preventing unemployment from becoming greater than it actually was."[35]

It is not possible here to analyze the merits of the 1931 reduction in real wages. This must be considered in conjunction with other depression adjustments made in Australia, which included exchange depreciation, interest and rent reductions, lowered tariffs, a public works program and the expansion of credit by the central bank.

In a detailed analysis of these various measures I have concluded elsewhere that although the Commonwealth Arbitration Court may not have selected the best time to make the special reduction of 10 per cent in real wages, "it is a fair conclusion that the wage reductions made in Australia during the depression contributed materially to the restoration of economic equilibrium."[36]

[32] F. C. Benham, *The Prosperity of Australia,* 2nd ed., p. 210.

[33] Commonwealth Court of Conciliation and Arbitration, *Basic Wage Inquiry,* 1930, p. 8.

[34] See E. R. Walker, *Australia in the World Depression,* chap. 6.

[35] Commonwealth Court of Conciliation and Arbitration, *Basic Wage Inquiry,* 1934, p. 8.

[36] W. R. Maclaurin, *Economic Planning in Australia,* P. S. King, 1937, p. 249. See also D. B. Copland, *Australia in the World Crisis.* For a different point of view see E. R. Walker, *Australia in the World Depression.*

Conclusion

The record of experience with compulsory arbitration in Australia is not sufficiently satisfactory to lend great encouragement to those who believe that the United States should undertake a similar experiment. If it has proved difficult to administer a system of compulsory arbitration for 7,000,000 people, the problem would be vastly magnified in the United States. It appears desirable, therefore, for us to experiment further with voluntary arbitration methods before committing ourselves to any such system. Once adopted, compulsory arbitration is likely to interfere with the development of the best spirit of coöperation between capital and labor. Yet, we in this country may eventually have to accept it unless we can find a workable compromise between the extreme positions adopted by both labor and capital in some of the recent industrial disputes.

In the regulation of minimum wages we could profit perhaps by Australian experience. Here again, however, it would seem desirable to experiment first with a "basic" wage designed to provide a "fair and reasonable" standard of living and leave the provision of margins for skill to the play of economic forces. So far as the method of adjusting the basic wage is concerned, I am inclined to believe that the Australian system of automatic regional cost-of-living adjustments checked periodically by reference to general economic conditions is the most practical method of administering a national minimum wage. The understanding of general economic conditions shown by the Commonwealth Court in recent years indicates that a properly administered minimum-wage law may add a valuable element of flexibility and control in the business cycle.[37]

W. RUPERT MACLAURIN

Massachusetts Institute of Technology

[37] The possibilities for control in the upswing of the cycle raise some interesting questions. Professor Copland has written me that the new principle of a prosperity "loading" adopted by the Court in 1937 was worked out largely at the suggestion of the Australian economists. "Apart from the basic economic conditions having justified a rise in wages," Copland writes, "the Court thought an extra amount should be given to workers in order that expansion and investment might be dampened down."

LAND PRICES IN SEVENTEENTH-CENTURY MARYLAND[1]

The American colonial records of the seventeenth century in many cases do not offer enough economic material for statistical price studies. However the archives of seven counties in Maryland do contain land records of reasonable adequacy for the period from 1663 to 1700. From such sources a total sample of 1,683 land prices is secured with enough descriptive material to allow a comparison of improved and unimproved plantations and a determination of the residences of buyers and sellers. The resulting price trends verify within the limits of the article the normal reasoning about land values in a rapidly growing colonial settlement. It seems probable that the specialized agricultural interest of the Maryland colonists and the presence of widespread waterways accentuated the increase in land prices which in four decades showed an advance of 135 per cent. Speculation in land warrants was also a consideration, even in a new continent where virgin land was held to be limitless. For comparative purposes there is used both the absolute land prices in pounds of tobacco and also price indexes.

I

The seventeenth-century archives of the American colonies apparently do not contain enough economic material for comprehensive statistical studies of prices. This deficiency is recognized by the International Committee on Price History which considers the eighteenth century the earliest one for which adequate continuous price series can be constructed. To some extent Maryland must be held an exception with its provincial and county records that go back to the date of the colony's establishment in 1634.

By no means are the sequences of archives unbroken, and it is an irremedial misfortune that in several of the oldest counties many original manuscripts have been destroyed by fire or negligence. Administrative officials in the counties are becoming more aware of the value of the contents of their vaults and are taking steps to preserve such records. Fortunately the Maryland Historical Society almost one hundred years ago assumed responsibility for the provincial documents, and its series of printed *Maryland Archives* is preserving such information in a manner reflecting soundest editorial supervision. Recently the Maryland Assembly created the office of state archivist the occupant of which is charged with the duty of gathering and preserving official records.

From the Maryland colonial records it is possible to secure information about land prices from recorded conveyances for the last thirty-seven years of the seventeenth century.[2] There are gaps which though regrettable can

[1] The field work required for the gathering of the land prices in this study was in large part made possible by a grant-in-aid from the Social Science Research Council. This material is to be a part of an economic history of Maryland during the seventeenth century.

[2] These are the county records that have been used: Anne Arundel County (created in 1650) *Land Records*, IH No. 1 1666-1705, JH No. 2 IH No. 3 1665, IT No. 5 1675-1752, WT No. 1 1699-1702, WH No. 4 1709; Baltimore County (created in 1659) *Land Records*, RM No. HS 1659 to 1725, IR No. PP 1663 to 1705, IS No. IK 1665 to 1737, TR No. RA 1672-1718, IR No. AM 1681 to 1706; Charles County (created in 1658) *Court Records*, B No. 1 1662 to 1665, and the following sequence in chronological order C, D, E, F, G, H, I, K, L, M, N, P, Q, R, S up to the year 1697; Dorchester County (created in 1668) *Land Records*, No. 1 Old 1669-1683, No. 3 Old 1671-80, No. 4 Old

be spanned. Because it was not until 1663 that the recording of land conveyances became officially mandatory, the desired material prior to this date is too incomplete to be used.[3] There are other "land records" among the Maryland archives that do go back to 1634, but these are either the original land warrants by grant or purchase from the Lords Baltimore and do not contain prices, or are survey records also lacking this fact. Thus it is from the officially recorded sales of land by the original or subsequent settler-owners that the price figures for this study are secured. Because also in the seventeenth century some people preferred to conceal the true consideration in a nominal price—and especially so in the sixties and seventies—the number of prices used in this study is no indication of the actual volume of real-estate transactions within the respective years.

From the several thousand conveyances only those were chosen that offered the following five facts: the date (and new style was used), the residence of the buyer and seller, the acreage, the nature of the property (improved and cultivated or not) and the price. A further word about those qualifications. In turn a fourfold classification was made for residence: intracounty buyer and seller, intercounty within Maryland, intercolonial (America) and international.[4] In almost every deed the details of the survey lines were followed by the total acreage with the usual legal precaution "or thereaboute."[5] As a matter of fact that phrase was more than a matter of form at that time, because the original warrants were often vague and with the passing of time confusion resulted from the destructible nature of the landmarks (trees, fences, streams). The distinction which I made between land cultivated and improved with buildings and land not so improved was based on the wording of the deed. I assumed that when the land was cleared and occupied such was plainly indicated. From an examination of several thousand deeds that assumption seemed reasonable though not applicable

1679-89, No. 4½ Old 1689-92, No. 5 Old 1692-1701; Kent County (created in 1642) *Land Records,* A 1654 to 1656, B 1656 to 1662, C, O Liber K 1681 to 1685, OO Liber M 1694 to 1701, *Court Proceedings,* I 1676 to 1695; Somerset County (created in 1665) *Deeds,* B-1 0-1, B-½ 0-2, SC 0-3, M-4 0-4, WW 0-5, MA 0-6, L No. 1, L No. 2, *Judicial Records,* 1670-71, 1689-90, 1690-92; Talbot County (created in 1662) *Land Records,* No. 1, GG No. 3, HH No. 4, KK No. 5, NN No. 6, LL No. 7, AB No. 8. As one can see there is no uniformity in designating these volumes, nor do the titles accurately indicate the contents. Four other counties were created before 1700 but their records were too fragmentary to use.

[3] Permissive recording of land conveyances was provided by law in 1639, 1642; in 1663 the validity of land titles was to be established only when recorded in the Provincial or County Courts, *Maryland Archives,* I, 61-62, 159-160, 194, 487-488.

[4] For the seven counties the percentage of sales between residents of the same county declined over the four-decade period from 87 per cent to 79 per cent; intra-Maryland-county sales increased from 6 per cent to 15 per cent; the other two classifications remained about the same.

[5] From a correlated study of the sizes of these land tracts I find that about 90 per cent of the properties contained less than 450 acres. See also Hester D. Richardson, *Sidelights on Maryland History,* ch. 43 (Baltimore, 1913).

in every case.[6] By far the majority of the land prices was given in pounds of Maryland tobacco and that continued to be true even though, as the century drew to a close, pounds sterling "English money" began to appear with some frequency.[7] For the conversion of sterling prices, tobacco was valued at $1\frac{1}{2}$ pence a pound weight up to 1680 and then at 1 pence a pound.[8] It might be mentioned that when the transaction involved a considerable price often there were provisions for the payment to be made in instalments.

II

Because there are not land prices for two or more counties until 1663, the year in which recording was provided by law, this study covers the thirty-seven years from 1663 to 1700. For the decade from 1663 to 1669 every acceptable deed (*i.e.*, containing the necessary five facts) except three is used; for subsequent years when the material is more plentiful it seems desirable to limit the sampling for each county to ten conveyances a year.[9] For many of the counties and years the total number of usable items comes to about this limit of ten. Moreover, in several tests where I record all acceptable deeds the greater number results in price medians that confirm the substantial correctness of the sampling. There is a total of 1,683 conveyances used in this study, 110 for the seventh decade, 509 for the eighth, 533 for the ninth and 531 for the last ten years of the seventeenth century.

Now about the statistical method used in organizing this material. The original land prices for each of the seven counties are converted into a price per acre expressed in pounds of Maryland tobacco. Then these prices are arrayed on a yearly basis for each county. It seems best to use the median as the representative price because such a middle figure is but little influenced by the occasional extremely low or high prices. Weighting a price

[6] These were the contrasting descriptions of the land contained in the deeds: for unimproved land ". . . [x] acres be the same more or leste Together with all rights profitts & benefitts thereunto belonging, allsoe all Writeings Patents Deeds & Euidences touching or any way as Concerning the same . . . [and sometimes included] with woods, underwoods, water, water courses, wayes easements. . . ." The deeds for improved properties were thus described: ". . . together With all & singular the houses buildings structures or Edifices whatsoeuer thereunto belonging or appertaineing, together with all the pastures, feedings, Comons, Comons of pasture, range for Cattle & hogges, woods, underwoods, Water, Watercourses, fishings, fowlings, Wayes Easements profitts Commodities & Hereditam'ts whatsoeuer unto the sd parcell of Land belonging . . . [and at times mentioned orchards, gardens and yards]."

[7] More specifically, in the sixties 3 per cent of the conveyances in this study were priced in pounds sterling; by the last decade this was 10 per cent.

[8] Maryland records do not offer many conversion ratios up to 1680, but the ratio of $1\frac{1}{2}$d. equals 1 lb. of tobacco may be considered representative; after that date a pence per pound of tobacco was the most common exchange value. See also, V. J. Wyckoff, *Tobacco Regulation in Colonial Maryland* (Baltimore, 1936).

[9] There is an uneven distribution of usable deeds among the counties in the seventh decade, a range from 4 items for Dorchester County to 47 for Charles. There are also two gaps, an absence of records for Kent County in 1688 and 1689, and for Charles County in 1697, 1698 and 1699.

TABLE I. INFORMATION ABOUT 1,683 TRACTS OF LAND IN SEVEN MARYLAND COUNTIES IN THE 17TH CENTURY

Year	*Median land prices in pounds of tobacco per acre*			*Percentage of improved land to all tracts*
	All tracts	*Improved*	*Unimproved*	
1663	15	0	15	0
1664	16	12	19	63
1665	17	19	18	64
1666	18	15	18	24
1667	16	24	15	58
1668	28	29	27	48
1669	19	24	17	39
1670	28	33	20	35
1671	19	42	20	29
1672	25	25	25	22
1673	30	34	26	40
1674	27	38	24	34
1675	29	37	27	41
1676	31	44	24	27
1677	28	41	27	33
1678	29	50	30	31
1679	32	34	29	39
1680	27	30	23	29
1681	34	35	30	39
1682	28	28	27	36
1683	29	40	28	38
1684	30	38	28	43
1685	25	43	23	28
1686	31	53	27	43
1687	31	50	30	40
1688	32	39	25	48
1689	35	39	32	53
1690	32	49	33	34
1691	49	43	35	58
1692	39	62	34	47
1693	40	40	30	42
1694	41	58	24	51
1695	43	50	30	48
1696	31	47	28	47
1697	37	37	38	31
1698	44	40	39	40
1699	37	47	35	44

by the number of tracts of land sold at that figure offers no advantage for one commodity that yields only to a distinction between improved and unimproved.

Space does not permit the presentation of the yearly medians of the land prices for each of the seven counties. Therefore in Table I there is given on an annual basis a summary of the medians for the seven counties as a group. Here again to avoid the undue influence of extremes the representa-

tive group figure for each year is secured by taking the median of the county medians. The trend for the thirty-seven years is the same when the arithmetic average of the annual county medians is used though the prices are slightly higher.

By *a priori* reasoning the improved land ought to have carried a higher price throughout the seventeenth century than the virgin tracts. Because such

TABLE II. SUMMARY BY DECADES OF LAND INFORMATION

	1660–1669	*1670–1679*	*1680–1689*	*1690–1699*
Land prices in pounds of tobacco per acre:[1]				
All tracts	17	29	31	40
Improved	22	38	39	47
Unimproved	18	26	28	34
An index of land prices:[2]				
All tracts	59	100	107	138
Improved	76	131	134	162
Unimproved	62	90	97	117
An index of land prices:[3]				
All tracts	100	171	182	235
Improved	100	173	177	214
Unimproved	100	144	156	189
An index of land prices:[4]				
All tracts	—	171	107	129
Improved	—	173	103	121
Unimproved	—	144	108	121
Percentage of improved land to all tracts	45	33	39	45

[1] The decade price is the median of the yearly medians for that period.
[2] For each division (*i.e.*, all tracts, improved, unimproved) the arithmetic average of the four decade medians equals 100.
[3] For each division the median of the 1660–1669 decade equals 100.
[4] For each division the median of the previous decade equals 100.

qualitative characteristics were noted in collecting these data it is possible to present a price series for each kind of property. These figures are also given in Table I, and the calculations are made in the same way that is used for the first price series of all tracts of land. It also seems desirable to find out if as the years passed there was a change in the proportion of improved farms to all pieces of property. In Table I the year by year changes in this ratio are given.

And finally to condense these figures for the thirty-seven years, the decades are used as arbitrary but convenient units. The changes in land prices are expressed both in pounds of tobacco and in index numbers. These decade series are given in Table II at the bottom of which footnotes briefly explain the methods of construction. The scarcity of prices for the period from 1663 to 1670 makes it necessary to handle the summaries for these seven

years in a most cautious way. That is why several bases are used for the comparisons in Table II. However, only in the percentages of improved lands to all tracts do the figures for this seventh decade seem out of line. There are several reasons for this. First, there was a preponderance of improved property in the one county that had relatively complete records for these years. Second, it would be natural to have deeds for the more valuable plantations first recorded once the system of county registration was inaugurated. As this procedure of officially entering on court books the land transfers became more firmly a part of the governmental administration, unimproved properties would also be entered by the county courts. From then on would be evident the fairly complete picture of a gradual increase in the proportion of real estate improved by cultivation and buildings.

III

There is not much need for an involved interpretation of these tables, because within the stated limits they offer a verification of the most normal reasoning about land prices in a rapidly growing colonial settlement. In Maryland there were fertile coastal plains and river lands favored with a moderate climate. Those conditions focused the energies of the settlers on agriculture and for various reasons tobacco became the dominant commercial product of the province from the first years to the Revolution. The bulkiness of the leaf in shipment made easy access to water carriage most desirable, thus waterfront properties were sought, and sought in units of many acres to accommodate the system of tobacco cultivation in use at that time. Other considerations added to the demand for lands in the waterway and early settled regions. People could move more easily by boat than by foot or horse; there were the physical difficulties of clearing the inland forests and the personal dangers from Indians as frontiers were pushed westward. The rapid increase in the population of the colony[10] also gave a stimulant to the rise in land values which were then pushed to yet higher levels by the purposeful speculation in that necessity of colonial life. It was that abuse Lord Baltimore stressed in his proclamation which changed the method of securing new land warrants from the headright system to outright purchase.[11] Another result that might be expected from the above considerations combined with other causes was the tendency toward the breaking up of large original grants into smaller pieces. In a separate study of the same 1,683 tracts of land I found that whereas farms with less than 250 acres represented 54 per cent of the total number in the seventh decade,

[10] Maryland's first colony had about 200 people. By 1660 there were near 8,000 inhabitants in all; this number by 1688 had increased to 25,000 and by 1701 to about 34,000. Father Andrew White, "A Briefe Relation of the Voyage unto Maryland," Maryland Historical Society, *Fund Publications,* no. 35; *Archives,* XXV, 255, 259; Lewis C. Gray, *History of Agriculture in Southern United States to 1860,* p. 1025.

[11] *Archives,* V, 390-391, 394-395.

they were 75 per cent of the total in the last decade. However, these conclusions about land prices for Maryland during the seventeenth century must not be generalized for all the American colonies during the same period.[12]

V. J. WYCKOFF

St. John's College, Maryland

[12] Although the Library of Congress card catalog and the bibliographies of authoritative colonial histories have been carefully checked, I can find no comparable studies of land prices for other colonies for the seventeenth century. There are possibly published or unpublished monographs on this subject.

For an analysis of the sizes of these tracts of land see, V. J. Wyckoff, "The Sizes of Plantations in Seventeenth-Century Maryland," *Maryland Historical Mag.*, vol. xxxii, no. 4, pp. 331-339.

HOARDING AND THE COMPETITIVE EQUILIBRIUM

Competition is generally regarded as sufficient to insure equilibrium at full employment. Hoarding is receiving increased attention, but apparently there is failure to regard it as a limitation on the doctrine of competition. Hansen's point that lack of competition is essential to validity of Keynes's position.

Under perfect competition, outgo must be recovered in receipts in order to maintain equilibrium, hence hoarding will destroy equilibrium. Competition cannot correct situation. Price cutting necessary to effect sales must be in excess of any reduction in costs, since a portion of cost outlay is hoarded by recipients. Price declines may overcome disposition to hoard, especially if new bottom be reached; but new level likely to be due to non-competitive forces.

Need for making hoarding integral part of economic theory augmented by large-scale industry and inequality in personal incomes. Flexible prices very important, but not enough.

Perfect competition has been the ideal of economists since the beginning of modern economics. The doctrine has been subject to certain reservations, as in the case of industries where monopoly under government regulation has been deemed preferable to competitive conditions. Besides, there has been the persistent dilemma that perfect competition, keen and ruthless pressure against the least able, leads to monopoly. This has prompted the placing of barriers against competition in order that competition itself might be preserved. However, despite all of our waverings we have held to the faith that, if competition could prevail, prices would equal costs, sales would be unimpeded, and there would be full employment of labor and other economic resources.

Recently the matter of hoarding, of withholding funds from the market, both by business firms and by individuals, has been receiving attention. We are beginning to appreciate that the old "make-work fallacy" and the "putting-money-in-circulation (by spending) fallacy" are often far from fallacious. But we have seemingly failed to see that the new hoarding doctrine forces a serious limitation upon the old competitive one.

Thus Professor Hansen after raising the question as to whether the contention of Keynes is sound that a condition of under-employment equilibrium will persist if nothing is done to control the propensity to consume, the marginal efficiency of capital, and the rate of interest, says:

> I do not think it is, unless one introduces certain definite assumptions which Keynes does not do. There is one necessary condition, in my view, without which stable under-employment equilibrium is not possible. It is the condition of cost rigidity (including wage rates) and monoply control of supplies.[1]

In short, if only there is competition and the price flexibility of the perfect market, full employment must prevail.

To note the effect of hoarding, however, suppose that there is perfect competition and that it has obtained long enough to have eliminated all

[1] Alvin H. Hansen, "Mr. Keynes on Under-Employment Equilibrium," *Jour. Pol. Econ.*, Oct., 1936, p. 680.

high-cost business units, leaving only units of approximately equal efficiency in each line of enterprise. Profits would then be at a minimum. The outgo payments of each business unit (including withdrawals by individuals from non-corporate enterprises) would be its costs of doing business; and its receipts from sales would equal the amount paid out. Obviously, if individuals and business firms do not promptly disburse the funds which they receive for services rendered, the circuit will be broken and the equilibrium will be destroyed. Competition will not only not prevent the disturbance, but the more perfect it is the more disastrous hoarding will be. That is, the more closely competition has narrowed the profit margin between receipts and costs, the more necessary it becomes that outgo payments of the various business units be returned promptly in the purchase of product.

Price cutting cannot correct this situation. Even if price reductions at one period of time should lead to the sale of available goods and services, an equilibrium at full employment cannot thereby be restored; for costs under conditions of hoarding cannot possibly be reduced as much as the prices of products would have to be reduced in order that the total output might be sold. This follows from the simple fact that costs include the sums that are to be subsequently hoarded. Total receipts cannot but be less than total costs if a portion of the costs is withheld from the market. Industry cannot maintain itself under such conditions.

Furthermore, of course, the situation cannot but be made worse if the hoarding of a portion of income continues. The inevitable outcome from such a situation is the complete paralysis of the economic system unless some outside agency such as the government intervenes. To be sure, declining prices as a result of competitive pressure may overcome the disposition to hoard, particularly when it appears that a new level has been reached. Credit for such a halt in a price decline may, however, have to be given not to competitive forces but to their opposite.

Hoarding may be offset by additions to buying power through extensions of credit, or when hoarding goes far enough to create unemployment, it may be partially corrected by the payment of unemployment benefits from accumulated funds. Then, too, hoarding may be overcome by some adventitious circumstance that so alters the general business outlook as to stimulate investment and the purchase of consumers' goods. Dishoarding may also be a compensating factor, but if it only equals current hoarding it will not restore the equilibrium. These factors are limited, generally, in their operation. The credit that may be provided by banks, merchants, and other business units is not only subject to limitations but it is usually sharply curtailed whenever business conditions become unfavorable. Thus such credit tends to augment rather than to counteract the effect of hoarding. Government credit might be deliberately extended whenever business

conditions get bad and thus be made an effective instrument to offset hoarding.

The need for making hoarding an integral part of economic theory has been increased by certain conspicuous elements in our present-day life. Large-scale business with the concentration of a large volume of buying power in the hands of a few firms increases the probability that funds may be withheld from the market as a result of epidemics of fear or doubt as to the future. This probability is further enhanced because the few managers of large-scale enterprises tend to be more finance-minded and less production-minded than would be the much larger number of men who would be serving as managers if the large-scale businesses were owned and managed as small units. Then, too, the agreements and understandings that are possible among a relatively few men reduce the risk of waiting for favorable opportunities to purchase material, equipment, or even labor.

Similarly, inequality in the distribution of income contributes to the likelihood of hoarding. The larger the income the greater the ease with which a portion of it can be left unused. This simple fact is augmented by the general social restrictions upon lavish display. While something in the way of conspicuous consumption is encouraged, the general rule proscribes ostentation. Many factors contribute to this, including the teachings of religion, the democratic ideal, the fear of outraging voters, and the need to conserve time and energy in order to carry on a chosen line of work.

The prompt disposal of funds by the well-to-do thus turns upon investment opportunities which are determined by business-men. If they are not asking for funds because they themselves are in a hoarding mood, or because the current new devices are not sufficiently superior to those in use, or because they call for relatively little capital, then the individual with an income in excess of his consumption can hardly escape hoarding. If the tempo of capital building should decline over the coming decade, this problem would become increasingly serious.

Lack of flexibility in the price structure is a serious matter, and, it seems clear, has taken a heavy toll since 1929; but competition alone is not enough. The flow of funds is equally important.

H. Gordon Hayes

Ohio State University

TAXES AND THE CONSUMER

Many people still believe that the burden of all taxes not levied directly upon the consumer is shifted to them. This theory can easily be disproved, and it has been repudiated by practically all taxation authorities. However, nearly all taxation authorities have so far believed that the burden of the taxes which really are shifted to the consumer and of those which are levied directly upon the consumer cannot be shifted by him but are borne by him.

This theory is also unsound. In the first place, it is a mistake to assume that a tax which has been shifted to someone by means of some goods which he purchased can be passed on by him only by selling the goods in the same form in which he bought them. He may use these goods in producing other ones and can perhaps shift the tax farther just as readily by selling the goods he produced as he could have by selling those he bought. In the second place, most consumers who pay taxes are largely under the same type of economic circumstances as a commercial or a manufacturing business. They currently sell something and thus earn the funds which they spend for needed goods and services, and these goods and services are needed in earning additional funds which will be spent for the same purposes later on. Hence, most of the tax-paying consumers have the same means as manufacturing businesses have of shifting taxes passed to or levied directly upon them. Supplementary means of tax-shifting which organized labor can use—and has used—are collective bargaining or strikes or threats to strike.

Taxes may be divided into two classes, those which are levied directly upon the consumer and those which are levied upon others. The theory that the taxes in the second of these two classes are all shifted to the consumer is still popular in some quarters. The following quotation illustrates the way in which those who adhere to this theory develop it.

Drive into a filling station. Ask for 10 gallons of gasoline and a quart of oil. Tell the attendant to put water in the radiator and check the tires. While he's busy, stroll over to the counter and buy a package of cigarettes. Come back and pay your bill—and in less than five minutes you paid three separate taxes. You paid 50 cents tax on your ten gallons of gasoline, six cents on your package of cigarettes, and one cent on your quart of oil—a total of 57 cents on your two dollar purchase—25 per cent of the total bill. "Well," you console yourself, "at least I wasn't taxed on the air."

But weren't you taxed on the air? Let's see. The filling station proprietor paid a tax on the air compressor when he bought it—he pays a tax on the electricity to operate it. Do you think he pays these taxes and forgets about them? He does not. Quite naturally, he passes both the direct and the indirect—the open and the hidden—taxes on to you. They are part of his "cost of doing business."[1]

When you ride on a train or bus, a tax is included in your fare. The company that transports you to work must pay the tax or else go out of business. When you go to a grocery store for your food, the share of taxes paid by the farmer, transportation company and middleman have been added to the price you pay.[2]

This theory very obviously is based upon the fact that the money which an automobile manufacturer, for example, turns over to the tax-collecting authorities was obtained by him from the dealers who handle his cars and

[1] Wisconsin Taxpayers Alliance, *Wisconsin Taxes—Where They Come from and Where They Go,* Oct., 1934, p. 45.

[2] *Ibid.*, p. 8.

trucks; and the dealers, in turn, obtained this money and the money with which they paid the taxes which were levied directly upon them, from those to whom they sold the automobiles and trucks retail. The same process is in operation in the production, processing and marketing of other materials and commodities. A question that might be asked at this point is: How many farmers would be willing to admit that the tax burden which they are bearing consists only of the levies which are shifted to them by means of the goods which they buy; that the burden of the property taxes which they are paying is really borne by others? The writer of the foregoing quotations neglected to distinguish between the operators of passenger cars and the operators of trucks used in commercial transportation. Whether or not a purchaser of gasoline and oil bears the burden of the taxes levied thereon depends to some extent upon the purpose for which he is going to use the vehicle.

It is necessary to state here in abbreviated form the general laws of tax shifting. Only the taxes levied upon goods which are involved in some way in economic transactions of some kind can be shifted. The shifting of taxes also depends upon the amount of competition among those who sell the goods involved. If a new property tax is levied upon a monopolist, he will be unable to shift it because, already before the new levy was imposed, he had in effect the most profitable combination of price and amount of goods offered for sale, and he will not be able to charge more for these goods because of the new levy. A type of monopoly which in most cases is not subject to this law is the public utility. The rates charged by each public utility are subject to government regulation. So long as the demand for the goods produced or services rendered by a public utility is high enough and remains constant, its rates will be such as to make the investment of its stockholders yield a "reasonable" net return, and all property taxes levied upon it will be shifted to its customers. If the optimum combination of rates charged and rates of production of a utility yields less than a "reasonable" net return, it is impossible for the utility to shift all of its property taxes to its customers.

However, if a new property tax is levied upon those engaged in a business which is highly competitive in character, they will try to shift it, either forward to their customers or backward to the persons or concerns from whom they buy goods. They will be shifting it forward if they add it to the prices at which they had been selling their goods and can get the increased prices for enough of these goods so as to be able to realize as much profit as before. They will be shifting it backward if they can induce those from whom they buy merchandise to sell it at a lower rate and thus absorb the tax. In a business of this type, the margin of profit is narrow. If the new levy cannot be shifted and the payment thereof is enforced, those in this business who are in the weakest economic circum-

stances will be forced out. This will decrease the supply of the goods involved which will reach the market; and this shrinkage in the supply of the goods will increase the prices thereof enough so as to make it possible for those who remain in the business to shift their share of the new tax to their customers. The retail grocery business is one of the businesses which usually are very competitive in character. A relatively large number of people are engaged in it. This is due to the fact that the food which the grocers sell is an absolute necessity and the consumer demand for it is constant.

This brings up the factor of the elasticity in the demand for merchandise as a means of shifting taxes. The elasticity in the demand of any group for goods of any given kind influences only the possibility of shifting forward to that group taxes levied upon those from whom these goods must be obtained. The possibility of such shifting is in inverse proportion to the elasticity in the demand. Another factor upon which tax shifting to some extent depends is the elasticity in the supply of the merchandise involved. That is to say, the extent to which any group can shift a tax levied upon it is partly dependent upon the facility with which those from whom this group buys goods or services can change the rate at which they can supply them in response to changes in circumstances. If a manufacturing industry can readily adjust its rate of production to, for example, changes in demand, the supply of the goods it produces is elastic. Automobile manufacturing is such an industry. If an industry is unable readily to make such changes in its rate of production, the supply of the goods it produces is inelastic. The supply of farm products was, prior to the inauguration of the government crop control program, and ignoring the effects of changes in weather conditions, relatively inelastic.

The elasticity in the supply of a kind of merchandise which any group may be purchasing affects only the shifting backward of taxes levied upon that group. If a new property tax is levied upon a merchant whose business is very competitive, he may first try to shift the tax forward. If he is unable to do that, he will try to shift it backward. If the rate at which he can procure goods is relatively inelastic, *i.e.,* if those from whom he buys his wares are unable, when he insists that they lower their prices because of the tax, to reduce the rate at which they place their goods upon the market and thus enforce the continuation of their prices, the tax will be shifted to them. If the rate at which they put their merchandise upon the market is elastic, they can escape a property tax levied upon those to whom they sell. The possibility of shifting backward a tax levied upon any group is in inverse proportion to the elasticity in the supply of the goods which that group is purchasing. Sometimes taxes levied upon manufacturers or others who employ labor can be shifted to their employees by reducing the wages they pay.

Generally speaking, an industrial or commercial establishment whose

volume of business is comparatively large is more profitable than one whose volume of business is small. This is due to proportionately less overhead expense in a large as compared with a small establishment. Hence, if a new property tax is levied in accordance with a progressive schedule of rates upon the gross income of each of the concerns engaged in a business in which prices are determined by the marginal establishments, the tax cannot easily be shifted to the customers, unless it absorbs all of the net profit. This kind of tax is, in this respect, similar to one levied upon net income. A tax upon the net income of, for example, a steel manufacturer, cannot be shifted because he must compete with the steel manufacturers who have no net income in excess of the amount exempted and who therefore are not subject to the income tax.

The foregoing, although an incomplete statement of the laws of tax shifting, will do as a means of disproving the claim that the burden of all of the taxes not levied directly upon the consumer is shifted to him. Taxes which are levied upon goods which are never involved in economic transactions of some kind cannot be shifted at all. Neither can a property tax levied upon a monopolist be shifted to anyone. Again, if a property tax is levied upon merchants who handle a type of merchandise the consumer demand for which is elastic, it will be shifted backwards if it will be shifted at all, assuming that none of these merchants are forced out of business. Most luxuries are merchandise of this type. Additional taxes which usually cannot be shifted at all are the property taxes imposed in accordance with a progressive schedule of rates upon all who are engaged in a business in which prices are determined by the marginal establishments, and the levies upon net income. Among the taxes which are not imposed directly upon the consumer but which are shifted to him are the property levies upon merchants who are subject to keen competition but who sell goods for which the consumer demand is relatively constant.

However, nearly all authorities have so far believed that the burden of whatever taxes really are shifted to the consumer by those whom he patronizes, and of the taxes which are levied directly upon the consumer, is borne by him. Professor Merlin H. Hunter says:

> Suppose an individual buys a suit of clothes for his own consumption, for which he pays $50. There is a 10 per cent tax on the excess paid over $25, or a tax of $2.50. Since he does not pass the clothes on to someone else, and thereby provide the possibility of raising the price to $52.50, in order to recoup himself, he must bear the burden. . . . The consumer . . . cannot shift the tax further. The suit . . . no longer can enter into demand or supply as it did when in the hands of the retailer, wholesaler or manufacturer.[3]

It is appropriate at this point to show the erroneousness of the theory that if a tax is shifted to someone by means of some goods he purchased,

[3] *Outlines of Public Finance*, New York, 1926, p. 157.

he can pass it on only by selling precisely the same goods. Such a person may use such goods in producing other ones which he sells in lieu thereof, and the tax passed to him could probably be shifted forward just as readily by means of the sale of the goods he produced as it could have been if he had sold intact those he purchased.

Professor Carl C. Plehn says:

> Taxes levied on goods produced under competition and at an increasing cost per unit of output, the demand for which is inelastic, are very rare. . . . When such taxes are levied they are inevitably shifted *in toto* to the consumer. A tax on milk is scarcely a political possibility. Yet the recent regulations requiring pasteurizing and other sanitary measures impose in effect a tax on milk. The entire cost of these is shifted, as any tax would be, entirely to the consumer, for any part borne by the producers means at once bankruptcy of the marginal producers and lowered supply followed by higher prices.[4]

Professor Plehn, of course, implies here that the consumer cannot shift farther the burden of the taxes passed to him, but bears it.

In discussing the sales tax, Professor Harley L. Lutz says:

> The general practice is to require the seller to include the tax as a separate, distinctly additional amount to be collected from the purchaser at the time of sale. The dealer pays the taxes to the government, but he collects directly and openly from the consumer and it is generally supposed that the burden of this tax falls on the latter.
>
> This assumption is probably correct on the whole. Sales tax laws are uniformly strict in requiring direct and open collection, which prevents some merchants from seeking advantage through open absorption of the tax.[5]

Professor Lutz here suggests the fallacy in the claim that the burden of all sales taxes is in its entirety shifted to and borne by the consumer. The tax on gasoline, for example, is sometimes not indicated as a separate charge to retail gasoline purchasers, and at least to this extent may be borne by the retailers. Everyone is familiar with the gasoline price "wars" which have occurred in practically all communities. However, Lutz does claim here that the part of the burden of the sales taxes which really is passed to the consumers is borne by them and cannot be shifted farther.

Professor Lutz believes that taxes levied upon personal property used by its owner for strictly personal purposes also are consumer-borne levies. His views pertaining to the incidence of taxes levied upon personal property are contained in the following quotation:

> There are many forms of such property, which range all the way from the personal and household possessions of the taxpayer to the machinery, merchandise and livestock used in business or farming. The problem of incidence turns largely on the question whether this wealth is used for personal purposes, only, or whether it is used as capital in further production. Taxes on articles of personal use obviously are not shifted, since there is no price transaction subsequent to the imposition of the tax that would enable the taxpayer to shift the tax. In

[4] *Introduction to Public Finance,* New York, 1926, p. 324.
[5] *Public Finance,* New York, 1936, pp. 403 and 404.

this class belong clothing, furniture, books, pictures, jewelry—the whole varied mass of personal property which is often so indifferently assessed for taxation.[6]

However, Lutz says the following about taxes levied upon real estate:

> A building is a form of durable capital investment, and the taxes on this investment tend to be borne by the occupier or user of the structure. If the owner is also the occupier, there is clearly no alternative but for him to bear the tax unless he is engaged in some business that will afford him opportunity for shifting.[7]

In the first place, only those taxes which are levied upon real estate and which are not shifted by capitalization to whoever sold it the last time, can be borne by its present owner or passed on by him by means of an occupation in which he may be engaged. In the second place, if property taxes levied upon the owner of some real estate which he uses for strictly personal purposes can be shifted by means of a business in which he may be engaged, taxes levied upon personal property used by its owner for similar purposes can also be thus shifted.

Professor E. R. A. Seligman's conviction that the burden of the taxes which are shifted to the consumers is borne by them is expressed in the following quotation:

> . . . if the commodity subject to the tax has reached its final owner, to be consumed by him—no matter how protracted the period of consumption—there is no opportunity for setting in motion the forces that affect price. Once the tax has been shifted to the consumer, it will remain there.[8]

Professor Jens P. Jensen says:

> The stage at which the tax is imposed affects the shifting, but does not materially alter the incidence. If the tax is imposed upon the final consumers, it is likely, though not certain, to stay there in full. But it would probably have settled there anyway, even though the tax had been imposed at an earlier stage, on the article in the form of raw material or of an intermediate good. The general retail sales taxes recently enacted in a large number of countries and states may, with practical indifference in regard to incidence, be placed on the retailer who will probably shift them to the consumer, or be placed upon the purchasers with the retailer acting as collector. Collecting the tax from the consumer does not, however, guarantee that he will bear it; for he may be able to shift backward that part of the tax which, had it been imposed at an earlier stage, could not have been shifted forward to him.[9]

Thus the only kind of tax shifting which Professor Jensen admits that consumers can do is backward shifting. He infers in this statement that the consumer cannot pass forward either a tax which was levied directly upon him or one which was shifted forward to him.

Professor Lutz believes the personal income tax to be one which the

[6] *Ibid.*, p. 399.

[7] *Ibid.*, p. 396.

[8] *The Shifting and Incidence of Taxation*, New York, 1927, p. 252. Professor Seligman reiterates this view on pp. 229, 230, 231, 238, and 239.

[9] *Government Finance*, New York, 1937, p. 194.

consumer can shift forward. In discussing heavy personal income taxes, Lutz says:

> Above the subsistence standard is the conventional standard of living, and all classes tend to resist strenuously severe encroachments on even this level of income. If the income tax cuts too deeply into the return considered necessary to maintain the accustomed or conventional standard, the individual will be prompted to shift it by seeking an advance in salary, wages, commissions or other compensation.[10]

The net income tax can be shifted only if it is levied upon the basis of a proportional rate or a regressive schedule of rates and if none of the taxpayers' real net income is exempt. This is not the way net income taxes are being levied. However, Lutz here admits the principle of the forward shifting of taxes to the consumer.

In the above quoted passage from Professor Seligman's writings, he definitely expresses the conviction that the taxes which are passed to the consumers cannot be shifted farther, but at another place he says:

> . . . it is perhaps . . . legitimate to regard the house rent of a laborer as one of the necessary elements in expenditure which go to maintain his efficiency, and which should hence more properly be considered as an item on the side of production, rather than of consumption. Viewed in this light, a tax on house rent would be equivalent to a tax on wages or on the necessaries of life. In its broadest aspects such a tax . . . may be considered as susceptible of being shifted onward, and generally diffused. It is well established, for instance, that wages are higher in New York City than in a small community, largely because of the higher standard of life, or the increased scale of expenditures in the larger city, the most important part of the difference being due to the factor of house rents.[11]

However, this is all that Seligman has about this in a book of 396 pages dealing exclusively with the shifting and incidence of taxation.

Although these writers did not give their definitions of the term "consumer," they undoubtedly believe that every person is a consumer at least to the extent of the goods and services which he or she uses for personal purposes, these goods and services, of course, including food, clothing, shelter, recreational facilities, etc. Most of the consumers who pay taxes of any type are currently performing some function or functions of production and thereby are currently earning the money which they need for personal purposes. Either they work and receive wages or salaries or they have wealth which was put into some income-producing form and which yields rent or interest on profits, or they perform more than one function and receive income of more than one type. Also, millions of people, *e.g.*, many laborers, spend for these purposes all of their income as it is earned.

Hence, most tax-paying consumers are largely under the same type of economic circumstances as a manufacturing or commercial business. Each

[10] *Op. cit. supra,* n. 5, p. 401.
[11] *Op. cit. supra,* n. 8, p. 298.

of them is forced to deal with the problem of currently earning the funds which he or she spends for needed goods and services. And these goods and services are needed in the process of earning additional funds which are to be spent for these purposes in the future. A laborer must have food, shelter, clothing, etc., to be able to work. He uses these necessities to a great extent for the same purposes for which a manufacturing business uses coal and other raw materials, *i.e.,* as a source of heat, energy and equipment in producing something which is to be sold. Even recreation increases a laborer's efficiency. Witness the recreational facilities with which many employers have supplied their employees.

These circumstances also make the consumers who pay taxes[12] similar to commercial or manufacturing businesses in respect to tax shifting. They are producing and selling something and for this are receiving an income by means of which they may be able to pass forward taxes which were shifted forward to them when they bought some goods or services needed in production, and taxes which were levied directly upon them. And by means of goods or services purchased, they may be able to shift some taxes backward. The general laws of tax shifting are fully in operation at this point. Special or supplementary means of tax shifting which organized labor can use are collective bargaining and strikes or threats to strike; and it undoubtedly, has, in the past, many times passed taxes to its employers on a large scale. Laborers have sometimes been actuated by increases in the cost of living to demand higher wages. Whenever laborers receive raises in wages because their cost of living has increased, they quite certainly shift some taxes to their employers, because certain taxes are included in the cost of living and increases in living costs are usually due partly to higher taxes. Again, if personal taxes are shifted to or levied directly upon someone who, as an individual, rents land or real estate to others, he may be able to shift these taxes to his tenants. It may be more difficult for a wage or salary-earning consumer to shift taxes than for a commercial or manufacturing business, but it is useless to claim or imply that no tax shifting has or can be done by the salary or wage-earners.

There are many consumers who do not earn the money which they need for personal purposes. This group includes, among others, nearly all children and most housewives. It is only to these people that the term "final consumers" really can be applied. Consumers of this type obviously cannot shift forward taxes passed to or levied directly upon them because they do not sell anything of any kind, though they may be able to shift them backward.

CARL F. WEHRWEIN

University of Wisconsin

[12] As far as taxes upon goods and services are concerned, this means, of course, only the taxes levied upon those goods and services which the consumers use for personal purposes. However, personal taxes not levied upon goods or services are included.

Dr. Currie and the Measurement of Deposits: A Reply

In the course of his discussion of my *Behavior of Money,* which appeared in the issue of this *Review* for December, 1936, Dr. Lauchlin Currie criticized my method of estimating the national totals of circulating and time deposits. Dr. Currie has very kindly furnished me with further details of the procedure on which his criticism was based, but he was unable to do so until recently. Despite the delay which has therefore now elapsed since the appearance of his review, the questions involved are so important to the proper understanding and use of American bank deposit data for the period in question that I think a reply is essential.[1]

Dr. Currie bases his objection to my method on two grounds. One, to which he apparently attaches less importance, is the fact that the figures I obtained differ substantially in some years from those presented in his own *Supply and Control of Money in the United States.* I recognized these differences in my own book, however, attempted to account for them, and agreed that with respect to the estimates of float his method was probably superior. I also gave reasons for thinking that in other respects my method was the better (see my book, p. 177). In his review Dr. Currie does not deal directly with my conclusions on the problems of method at all, and indeed does not mention my discussion of these problems.

His second and principal ground for criticism is the nature of the results he obtains from a rather curious computation. He subtracts deposits as reported by federal reserve member banks and by savings banks, in the period 1921-1929, from my estimates of deposits for the country as a whole (these estimates being based on adjustments of the data of the Comptroller of the Currency, as explained in my book); tabulates the year-to-year changes in the resulting residuals, which he calls "deposits in non-member commercial banks"; and then observes that these residuals show "erratic . . . and . . . uncharacteristic movements." This behavior of the residuals raises in his mind "serious doubts . . . as to the validity of the method" which I followed.

It is clear, however, that this computation and the conclusions Dr. Currie draws from it are significant only if both of two conditions were met during the period in question (1921-1929)—namely, only if member banks, savings banks and other non-member banks all compiled their deposit figures accurately and on substantially similar bases; and only if the relative importance of the deposits of the several classes of banks in the national totals did not change rapidly or widely. If the first requirement was not met, Dr. Currie's residuals necessarily reflect in unknown degree the cumulated effects of differences in the methods of collecting and computing the original data, and of errors and omissions. If the second requirement was not met, they also reflect the effects of mere shifts in the relative importance of the deposits of non-member commercial banks.[2]

With respect to the second requirement, it is generally recognized that marked shifts in the relative importance of non-member commercial banks have taken

[1] I am indebted to my former assistant, Mr. P. Bernard Nortman, for aid in the preparation of this note.

[2] For the period since 1929, the Federal Reserve Board is now making an exhaustive recomputation which, for this later period, will give deposit data for the country as a whole that are free from all or most of the difficulties discussed in the present note.

place from time to time, though an accurate measurement of these shifts cannot be made from the data now available. But any such shift would produce apparently "erratic" changes in Dr. Currie's residuals, while having in itself no slightest bearing on the validity of my estimates of deposits for the country as a whole.

Even had the second requirement been met, however, the first requirement definitely was *not* met. This latter proposition hardly needs proof. It is familiar knowledge that the deposit data published by the Comptroller for the years in question were collected on bases which were at times markedly different from the bases used by the Federal Reserve Board (except with respect to national banks). Differences have existed at almost every point—not only in the stability of the group of banks covered, but also in the methods of circularizing the several classes of banks, in the questions asked on the forms, in the methods of collecting the original data, and even in the treatment of the data when collected. For example, before 1929 the Federal Reserve Board circularized the state member banks with a form which differed somewhat from the national bank form; and in combining the state member bank replies with the national bank replies, the Board had to modify the Comptroller's categories for national banks to fit its own form. Meanwhile the Comptroller collected data for state banks, whether members or not, on a somewhat different form. These mere differences in categories made the two resulting sets of figures, as reported by the Comptroller and the Federal Reserve Board respectively, not strictly comparable. Again, from time to time one system would exclude certain banks from its deposit totals because these banks were judged not liquid, while the other system would continue to include them. Again, one system placed certain items under demand deposits, the other under "other liabilities." Thus note the dissimilar treatment of deposits both by and in foreign banks. Again, in 1917-1930 the Comptroller shows smaller totals of United States government deposits in *all* banks than the totals shown by the Federal Reserve Board for such deposits in member banks alone. Various other examples of differences in the methods of collecting and handling the data could also be cited. Finally, with respect to both sets of reports it is known that the original figures turned in by the banks themselves have at times contained errors of not insubstantial size.

Yet Dr. Currie bases his criticism of my deposit estimates chiefly on residuals he obtains by subtracting Federal Reserve Board plus savings-banks figures from my estimates, which were based on the materially larger sample of the universe provided by the Comptroller's figures. This subtraction seems to me difficult to justify. While Dr. Currie's residuals, of course, do reflect in part the movements of non-member commercial bank deposits, they also necessarily reflect in some unknown degree the shifts in relative importance of different classes of banks, the errors and omissions, and the mere differences in the bases of classification, which inevitably appear when the results obtained by different and mutually inconsistent systems of reporting deposits are compared. It therefore follows, I think, that the movements of these residuals do not depict the changes of any real thing in the economic world, because they are influenced to an extent which cannot be ascertained from the data now available, but which is surely substantial, by the essentially spurious and variable factors just referred to. It then follows further that the residuals have no definite positive or negative significance in themselves, and that they cannot support Dr. Currie's conclusion with respect to the validity of my estimates.

On the contrary, it is possible to interpret the "erratic" and "uncharacteristic" behavior of these residuals as itself being in considerable degree merely an evi-

dence of the differences in the bases on which the two underlying sets of deposit figures were collected and compiled. Moreover, the residuals are much the smaller part of the universe; they formed less than 20 per cent of the estimated total of circulating deposits even in the years for which they showed the widest fluctuations. In consequence, relatively small but opposite errors in the Comptroller's and the Reserve Board figures would produce relatively large effects upon the residuals obtained by subtracting one set of figures from the other, or from estimates based on them.

Finally, it should be emphasized that Dr. Currie's criticism is not based on any explicit appraisal of the methods by which my deposit estimates were constructed, or of the general reasonableness of the behavior of the estimates relative to the behavior of other economic data, or of the validity of the estimates in terms of the relatively limited purposes for which I used them (see p. 57*n.* of my book). His criticism rests only on an inference derived from what seems to me to be an invalid comparison between two different sets of deposit figures constructed on two different bases. I therefore think it leaves my methods and conclusions unimpaired.

JAMES W. ANGELL

Columbia University

Mr. Lounsbury on Money

In the December, 1937, issue of this *Review,* Professor R. H. Lounsbury presents objections to current ideas of what constitutes money, preferring instead to regard the term as identical with the abstract unit of account. Encountering sometime a highwayman who aims a brace of pistols with the rough command, "Your money or your life," Professor Lounsbury would, if I understand his argument, remonstrate as follows. "My dear fellow, your manners are bad, but your use of terms is worse. I have recently shown that it is necessary 'to define money as the unit of account',[1] and that 'media of exchange can be called currency.'[1] Please observe that 'the unit of account as defined above does not have value,'[1] to wit, 'the value of a specified quantity of some concrete thing.'[1] Putting two and two together we therefore deduce that *money is the value of currency.* Your uncouth utterance simply means 'Hand over your units of account,' or better 'Give me the value of your currency.' I will be obliged to learn how I can avoid your displeasure by doing precisely this, no more no less. On the other hand if I simply give you my currency, I will be delivering a mere medium of exchange; but correctly defined, 'money does not serve as a medium of exchange,'[2] and so I would not be donating my money as you suggested. Go home and think this over before you brandish firearms at people again."

The definition of money which the highwayman needs in this situation, and which Professor Lounsbury searched for unavailingly in my book according to his confession, is embodied in the sentence he quoted three lines earlier in n. 1, p. 756: "The definition of money as exchange media circulating at a par or nominal value has the advantage of embodying the two irreducible functions, and departing but little from common usage." The highwayman could then stress the fact that, in his employment of the word money, he had indeed referred rather pointedly to media of exchange, but not generically to all physical media such as cattle

[1] R. H. Lounsbury, "What Is Money," *Am. Econ. Rev.,* vol. 27, p. 765.
[2] *Loc. cit.*

(pecus), hogsheads of tobacco, wampum, and Chinese "cash"—all of which would have necessitated the use of a flashlight, scales, and other inconvenient apparatus to determine quality, weight, or measure—but only to such media as are commonly accepted by tale, *i.e.*, at their nominal value, or as the physical bearers of Professor Lounsbury's unit of account.

In his particular profession, the highwayman would add, one needed to be careful. People were always trying this trick of paying nothing but abstract units of account, which like Professor Lounsbury's credit "has no existence independent of its calculation,"[3] and was therefore subject to spells of evanescence immediately after the completion of what technical economists would designate drily as a "one-sided transfer," but what he himself regarded as your money's worth in skilled handicraft. To be sure of one's honoraria, one should have in hand the physical media; for despite Professor Lounsbury's contention that even the media of exchange need not be physical,[4] had not the professor earlier in his argument himself maintained that the unit of account (*i.e.*, money) is the value "of a specified quantity of some concrete thing"? "In the United States at the present time," he would have explained, "the unit of account called the dollar is the value of 15 5/21 grains of gold 9/10 fine."[5]

Probably the determination of value proceeded rather more from quantity of money to gold than *vice versa;* but he would add, "I do not mean to hold you up —not for long anyway. If you pay me coins or notes of this realm, I will consider them money since they embody both the scarce physical media of exchange and the unit of account.[6] If I were an academic economist, I should also willingly consider that Professor Lounsbury's check has a sufficient physical substratum in the bookkeeping entries of a bank to regard his credit dollars as acceptable money; for it is indeed true that 'the unit of account (*i.e.*, money) may be established by fixing the *quantity* or the *concrete thing* whose value is the unit of account.'[7] But under the present circumstances, I feel compelled to ignore this bit of academic nicety and to decline a check."

And so we must leave the parties to this argument to their fates, reflecting that the highwayman's pistols are more than abstractly charged, and that Professor Lounsbury's wallet is compromised by a sort of money which is more than abstract units of account.

Howard S. Ellis

University of Michigan

Taxes as a Share in Distribution

The present theories of distribution declare that there are four factors—labor, land, capital, and enterprise—receiving as rewards for their specific contributions, or remunerations for their cost—wages, rent, interest, and profits—respectively. If we are to retain or revamp this type of distributive theory perhaps we should

[3] *Ibid.*, p. 767.

[4] *Loc. cit.*

[5] *Ibid.*, p. 766.

[6] F. M. Taylor, *Chapters on Money* (Ann Arbor, Mich., 1906) defines money, as Lounsbury contends, as the medium of exchange; but Taylor goes rather far toward incorporating the measure of value function or par circulation into his concept, *cf.* pp. 12, 16. My definition, quoted by Lounsbury, embraces both functions, not merely the physical medium, as he says.

[7] Lounsbury, *op. cit.*, pp. 765-766; italics are the highwayman's.

give some thought to the idea that the theory may, in view of the increasing governmental activity, now have become incomplete: are there not five rather than four, factors of distribution, the fifth being *government* receiving as its share *taxes?*

The first economists of record to attempt to explain systematically the distributive process were the Physiocrats who included government as a factor.[1] They maintained that the government was a partner in every enterprise and that without it, there would be no production at all. The share which the government received for its contribution to national wealth, the net product, consisted of taxes. Adam Smith, writing at the close of the Physiocratic epoch of economic theory, did not include the government as a productive factor and studied taxes only as a sort of appendage to economic theory in the fifth book of his *Inquiry into the Nature and Causes of the Wealth of Nations.* Ricardo significantly entitled his general treatise on economic theory *The Principles of Political Economy and Taxation,* relegating his remarks on the subject to the part of his book which follows the distributive theory. Ricardo, in chapter 8, felt that the government, far from contributing to the productivity of a nation, through its taxes, tended to retard it. He determined the form, character, and nature of the distributive system which was destined to dominate the theoretical expositions of economics for some time to come and which still retains the acceptance of many economists today.

Neither Adam Smith nor Ricardo explained why, after the work of the Physiocrats, they did not see fit to include the government as an integral part of their distributive theory and we are left to determine the reasons as best we can. We do know that the Physiocrats, writing near the end of the Mercantile system, in spite of their insistence upon economic freedom as embodied in their concept of laissez-faire, reserved certain functions for a government, which if it did not do much, was to engage in activities which were essential to production. The demands for positive government regulation of economic life, voiced by the Mercantilists, were still ringing in their ears. In the France of their day, governmental interference was still a fact in economic life and laissez-faire but a pious hope. Thus the Physiocrats found on all sides the actual results, in terms of mercantile profits, of the activities of government. It was but natural, in such an environment, to regard the government as a factor in production and to assign to it, as its reward, taxes.

By 1776, when Adam Smith wrote, economic liberty in England was fast taking form, and by 1817, when Ricardo's *Principles* was published, it was in many respects an accomplished fact. Adam Smith devoted eight chapters to the Mercantilists and concluded that government regulation, although it might contribute to the profits of certain groups, did not add anything to the fundamental wealth of nations and its activities could not be held to be truly productive. Hence it was not to be counted as a factor of production and taxes were but the price which people were called upon to pay for the rudimentary activities which states must perform in order to obtain a necessary modicum of order. David Ricardo, while admitting that certain activities of government were necessary, apparently felt that they retarded the process of production through the imposition of taxes necessary to their sustenance. Both Smith and Ricardo, and especially the latter, writing in England after the decline of Mercantilism, found themselves in a state

[1] *Cf.* Georges Weulersse, *Le Mouvement Physiocratique en France de 1756 à 1770,* Paris, Felix Alcan, 1910, vol. ii, pp. 44-48.

which was interfering less and less and growing wealthier as its regulation declined. It was but natural then, for them to regard the activities of the state as largely unproductive and taxes to lie without the pale of a theory of distribution. Since their work, but few authors, to the writer's knowledge, have seen fit to explain the rôle of government in distribution.[2]

And the reason again, although seldom given, is not hard to seek. Since Ricardo, laissez-faire has made progress and his classical followers have generally been warm partisans of this doctrine. Where governments do but little, and where this little is apparently devoid of great economic significance, we can hardly call economists to task for a failure to recognize that which they do not observe. But times are changing and economics must change with them. Governments are playing a larger economic rôle, and in many countries this progress has been so great in recent years that we can no longer close our eyes to it. It is quite possible now that the time is ripe for the restoration of government to the place which the Physiocrats had given it as a factor of production with taxes as its legitimate share of the joint product.

If this be done then the public will no longer be able to regard taxation as an imposition or as a burden retarding economic advancement. It will make for a better appreciation of the part which government plays in the economic system and a more intelligent attitude toward taxes. Its rôle as an agent of production and its share in the joint product, taxes, require analysis. The need for this was never greater than it is at present.

MAX J. WASSERMAN

Washington, D.C.

Suggested Changes in the Economics Curriculum: A Comment

The December issue of the *Review* contained a communication from Professor George Hunsberger of the University of Arkansas, which, itself, was provoked by a previous suggestion made in the September issue of the *Review* by Professor Richard Bohan of the University of Detroit. Briefly, Mr. Bohan proposed the substitution of a course in the history of economic thought in place of a freshman course in the economic history of the United States, believing that by so doing two things would be accomplished: first, the elimination of a dry, elementary course; second, the giving to the student of "a background of associations with which to relate his study of economic principles and their application to present-day problems."

[2] Francis A. Walker and W. Stanley Jevons inclined to the view that government constituted a factor of production and taxes a legitimate share in distribution. Francis A. Walker, in his *Political Economy* (Henry Holt, 1888), 3rd ed. p. 272, stated, "There has long been a difference of opinion among economists whether taxation should be a title in distribution or in consumption. Senior held to the latter treatment; Jevons favored the former." Walker developed the idea that government was a producer creating goods "which minister directly to the creation of values, vastly increasing the amount of the product over what it would have been without the intervention of the agency." On page 273 Walker stated that the problem of the incidence of taxation was a problem of distribution. The position of W. Stanley Jevons is not as definite although in his *Political Economy* (American Book Co., no date) pp. 48-52, he takes the view that taxes may properly be included as a share in distribution.

Professor Hunsberger proposed to substitute a survey course of the social sciences in place of economic history and then to coördinate the development of economic thought with the study of the principles of economics. The idea of a survey course in the social sciences for the freshman year is probably a very good suggestion as it tends to acquaint the student with the fact that the institutions of modern society are interdependent in their cause and effect relations and that a study of one branch of the social sciences can hardly be undertaken without some knowledge of the other fields of learning. Factual data and material drawn from other social sciences are accepted as such and used only as a basis of understanding social and economic phenomena as they are presented for analysis.

It has been the experience of the writer that few sophomores are equipped to delve into the mysteries of the evolution of economic principles. In an explanation of an existing economic system it is doubtful if a developmental approach is desirable. There are a great many persons who are interested in an explanation of existing economic phenomena who are not interested in and will profit little by a study of the development of the explanation of these same economic phenomena. The average sophomore does not have the sense of proportion or the power of discrimination that comes with greater familiarity with the subject matter of economics. For these reasons it is better for the instructor of a course in principles to offer one explanation of each phenomenon, at the same time suggesting that there may be other theories in good repute and even presenting an alternative to meet the needs of the students. Without knowing something about one theory it is difficult to select a better one. By the time a student reaches his senior year he has made a study of many specialized fields of economic endeavor and is ready to evaluate some of the material presented and to discriminate between theories.

Another objection to having a study of the development of economic doctrine accompany the principles course is that in many of the larger institutions graduate students and teachers with little or no experience are assigned to teach principles. Not many of these men are adequately equipped to handle the fundamental course in economics as it is; and to burden them with the added responsibility of developing the history of an economic doctrine is preposterous. My plea is for more experienced teachers in the most important course in the economics curriculum. If this suggestion is followed, many of the problems and difficulties that appear to be those of curriculum adjustment will be solved.

Frank W. Tuttle

University of Florida

Comment on Double Liability for Bank Stock

I should like to offer the suggestion that some of the harshness could have been tempered from the concluding statements of Mr. Marquis and Mr. Smith in their excellent article in the September *Review* on "Double Liability for Bank Stocks" by consideration of historical, institutional or evolutionary aspects. The plea for such consideration in the interpretation of acts or facts of past generations is not new, of course, but is therefore possibly all the more acceptable.

Is it not possible that at the time of legislation favoring multiple liability, relations of investors, depositors, noteholders and managements of banks were such that this very regulation was needed? Better bank examinations, control of stock issues, deposit insurance, and replacement of individual bank note issues by the national bank note system and later by the federal reserve note system created conditions making possible the dropping of double liability provisions since 1930

and are not necessarily "presumptive proof that this principle has not been satisfactory."

The theory of a *federal* government, in contrast to our present move toward *national* government, did not allow, in 1820-1860, the imagining or establishment of the present regulatory devices. The body of administrative law was not then developed, so that this supplement to the judiciary as a means of social control was largely lacking. Other factors were equally important, preventing or discouraging the adoption of plans for deposit security favored by Mr. Marquis and Mr. Smith. For instance, possibility of manipulation of accounts destroys the usefulness of "providing surplus equal to the par of stock or of bond reserves equal to capital stocks" as protection to depositors unless these methods are accompanied by rigid examinations and high professional morale.

The test of the merit of the multiple liability requisites may be in the disasters which were avoided, rather than in the amounts collected where disaster occurred. Certainly the early steps in regulations should not be condemned because of progress in regulatory theory and practice.

Ernest J. Engquist, Jr.

Arlington, Virginia

It was not the intention of the authors of the article on double liability to condemn absolutely the legal provisions requiring added liability for bank stockholders. The fact that between 1865 and 1934 there was collected from stockholders of closed national banks a sum in excess of forty million dollars is ample proof that noteholders and depositors were afforded some protection.

The comments of Mr. Engquist state expressly what may be found by implication in the article: that institutional changes, progress in banking theory and practice, and legal-political philosophy have made possible and necessary other forms of depositor protection to replace one which was never entirely satisfactory. Not only have other protective devices been evolved which seem better suited to our times and circumstances, but new factors have contributed to the ineffectiveness of the double liability provisions, such as the development of the holding company for bank stocks and court decisions requiring that complete losses be ascertained before assessments are levied. The authors do not consider Mr. Engquist's approach inconsistent with that of the article, but rather an express statement of the institutional factors and changes leading to our conclusions.

Ralph W. Marquis
Frank P. Smith

University of Rochester

General Works, Theory and Its History

Prosperity and Depression. By GOTTFRIED VON HABERLER. (Geneva: League of Nations. New York: Columbia University Press. 1937. Pp. xv, 363. $2.00.)

This new work by Professor Haberler is the theoretical portion of a larger investigation being conducted under the auspices of the League of Nations; the next part is to be "the application, as far as possible, of quantitative tests to the various causal hypotheses." The present volume undertakes two tasks: a survey and logical testing of the leading theories of the business cycle, and a synthesis of the valid elements in these explanations. (The last chapter, "International aspects of business cycles," though designed to supplement the earlier synthesis, could perfectly well stand by itself, containing as it does much that is of interest primarily to the student of international trade.)

Professor Haberler's examination of existing theories carries out with great skill a painstaking and exhaustive analysis of a huge volume of literature. As might be expected, over-investment theories—both "monetary" and "non-monetary"—receive the fullest attention, being accorded approximately half of the total space devoted to this survey. The discussion, judicious and sympathetic throughout, is in general admirably clear. The account of the Hayek capital-shortage theory, however, might have been improved had greater stress been laid on Hayek's distinction between "specific" and "non-specific" producers' goods.

With respect to the synthetic portion of the book, two general features are to be noted. First, Professor Haberler takes as his point of departure the common-sense conviction that the real differences between rival theories have been exaggerated. He therefore proceeds, in his task of unification and construction, to stress points of general agreement among divergent views. Second, the completed structure provides an excellent account of the processes involved in the cycle, as well as a balanced judgment as to their relative importance and interrelations as causes of industrial fluctuations. We get as a result an explanation of the business cycle which is in my opinion the most complete and coherent yet available. It is, of course, as its author modestly admits, "not a closed and rigid system, but a flexible and open one; there are many points where no definite solution can be proposed, but where the existence of a number of possibilities" may be indicated.

Consider now some of the leading elements of Professor Haberler's synthesis, in particular his explanation of the upswing of the business cycle. The process of expansion may be set in motion by any force leading to an

increase in the total money demand for goods, such as a revival of investment following upon the post-depression return of confidence. Elasticity in the supply of the productive agents and in the supply of money receives emphasis as a necessary condition for a general increase in output and employment. Inflationary sources (new bank credits and dishoarding) provide the funds, idle men and equipment the real resources for inaugurating a rising level of economic activity. Once begun, expansion is carried forward by a reciprocal stimulation of investment and consumption which is cumulative in nature. For some time the process of expansion gathers momentum, owing chiefly to the operation of the principle of acceleration, which, duly qualified, occupies an important (possibly an excessively important) place in the analysis.

Professor Haberler accounts for a divergence between investment and saving during the upswing in terms of a distinction between continuously earned but only periodically available income. Today's investment comes partly from savings out of today's *available* income and partly from inflation; yet all of today's investment enters today's *earned* income. While useful "in the description of the process of change in investment and in total demand, through time," this distinction seems to imply that monetary disturbance is *caused* by the imperfect synchronization of the earning and of the payment of incomes. Against such a criticism (raised by Mr. R. F. Kahn in the *Economic Journal,* December, 1937) Professor Haberler is protected by the fact that he nowhere states any such conclusion, and by the fact that he amply demonstrates how a monetary disturbance (*i.e.,* expansion) can get under way in his discussion of the cumulative nature of the process of expansion. Here is another example, if any were needed, of the numerous pitfalls surrounding the concepts of investment and saving.

Reverting now to the explanation of the business cycle given by Professor Haberler, we find that the momentum of the upswing slackens off, owing to growing inelasticity in the supply of the productive agents and in the supply of money. The economic system is rendered more sensitive to any deflationary shock, the appearance of which becomes *prima facie* increasingly probable if not inevitable.

Although Professor Haberler indicates that the supply of the productive agents and the supply of money may, at the peak of a boom, be very elastic in the face of a decrease in demand yet very inelastic when confronted with an increase, it is not altogether clear whether or not he regards their elasticity in a downward direction as of crucial importance. The argument (pp. 255-259) runs in terms of the deflationary effect on other industries of a rise of costs engendered by an increased demand for the productive agents and for investible funds in a given industry. This deflationary effect, contingent upon inelasticity of supply in an upward direction, must be ad-

mitted; but the elasticity of supply in a downward direction (*i.e.,* short-period rigidity of wages and interest rates) would appear to be equally important, by preventing prompt adjustment, in permitting deflation to get under way.

The source of an almost inevitable impulse toward contraction Professor Haberler finds in the maladjustments created during the upswing by the operation of the principle of acceleration. Because of the large reserve of idle factors of production with which expansion begins, it "can proceed a long way smoothly," and "the acceleration principle of derived demand has time to work itself out. That is to say, a number of industries will be developed to a level which they can maintain only if other industries (or the system as a whole) go on expanding at a given rate." A check to continued expansion arises from the shortage of credit and of the factors of production. A check to the consumers' goods industries is all that is needed to start an actual decline in the dependent producers' goods industries. A period of contraction begins, gathering momentum in a manner similar to the preceding period of expansion. Supplementing this source of maladjustment is another made familiar by Mr. Robertson: the exhaustion of investment opportunities in certain important lines, owing to the concentration therein of investment activity.

It is interesting to note that throughout his account, Professor Haberler gives a prominent though not an all-important place to the phenomenon of hoarding. The rate of interest is determined by the demand and supply of investible funds, a portion of which is provided by dishoarding. The desire for liquidity, although admittedly a function of the rate of interest, is by no means exclusively related to the latter. It is also a function of the price level, as is shown in Professor Haberler's account of the satiation of the desire for liquidity as the value of hoards increases with falling prices.

In conclusion, I may hazard the opinion that the systematic and clearly reasoned character of the book, together with its commendably low price, will result in its wide use as a text in college courses in business cycles.

P. T. Ellsworth

University of Cincinnati

Principles of Economics. By Frederic B. Garver and Alvin H. Hansen. Rev. ed. (Boston: Ginn. 1937. Pp. x, 686. $4.00.)

Concerned more with theoretical principles than most American textbooks in economics, "Garver and Hansen" has had a nine-years' run without revision; but the present revision is well done, and will doubtless make new friends for the book. The general approach is the same as in the first edition: but much of the factual material has been brought down to date; the value theory has been worked over in some places; and most important of all, new developments in the theory of imperfect competition have been

included, although not worked into the general body of theory very thoroughly.

Some twenty years ago it was often said that the next great task of economists was to be the statistical demonstration of economic theory. Professor Edie's *Principles of Economics,* published in 1926, was one of the notable early attempts to reconcile theory and statistics; and although this lead has not yet been followed very far, most of the recent texts represent a fairly liberal use of statistical material and technique. There has been on the other hand, a growing cult of abstract, mathematical, and hypothetical economics, in some instances little concerned with actuality; and some of the theoretical chapters of Garver and Hansen's *Principles of Economics* seem to the reviewer to represent this approach.

In the important chapter 5, on the "Combination of the agents of production," for instance, there are hypothetical tables and graphs with curves for fixed, variable, total and marginal costs, to show how many units of variable agents the marginal and superior employers use. It is assumed: (1) that this "problem of proportionality of agents" is "a narrower and somewhat different application of the wider and more general law of diminishing returns"; (2) that the plant and the entrepreneur are both *fixed agents;* (3) that the entrepreneur starts with a certain plant, with about one-fifth as much equipment and as many laborers as he should have, and adds units of these variable agents until he reaches the point of maximum profit, but does not add to his fixed plant; and (4) that the superior entrepreneur adds more units of variable factors than the marginal entrepreneur merely because his total unit cost is lower, and he can afford to add variable factors until his marginal cost rises to the price.

The first assumption seems to the reviewer to be the reverse of the truth. Would it not be more nearly correct to say that the law of diminishing returns is "a narrower and somewhat different application of the wider and more general law" of proportionality of agents? Incidentally, the authors go back to Mill for a statement of the law of diminishing returns which omits all consideration of applications of *capital,* a statement which they have to ignore in their discussion; for they presently give the correct statement of the law, to include applications of capital, and apply the law quite incorrectly—it seems to the reviewer—to the internal organization of the plant.

Regarding the second and third assumptions, the entrepreneur is the only fixed agent, in the sense that it cannot be increased; for the plant can be and finally is, increased along with the variable agents. Would it not be close to reality to assume that the size of the plant, the amount of machinery, and equipment, the number of laborers—all these are determined by the ability of the entrepreneur? The authors do indeed suggest that the entrepreneur may add to his plant; but the analysis tables and graphs do

not follow the suggestion, and in the discussion of marginal and superior entrepreneurs, the assumption seems to be that they have similar plants, and that the superior entrepreneur merely utilizes his more intensively. The analysis is ingenious, but it seems highly fanciful and unreal.

The assumption that the superior entrepreneur adds more variable units than the marginal entrepreneur—"utilizes his fixed plant more intensively" —because his total unit cost is lower, and he can afford to add variable factors until his marginal cost rises to the market price, seems generally sound; but it is an astigmatic picture of the business of the superior entrepreneur. Since his costs are lower, he can presumably afford to use more variable agents, as Professors Garver and Hansen have it, but he can also afford more plant and more land, and usually gets them. There is in this analysis no hint that the superior entrepreneur adds more units of the variable factors because he makes profits, and therefore *has the funds* with which to expand, and because with greater profits and expanding business he can secure credit more easily. Apparently his superiority is assumed to lie entirely in his ability to keep costs low, which makes it too simple. The authors may be justified in presenting what is apparently intended as a rigorously simplified analysis rather than a complete and balanced discussion; but much of the analysis seems so divorced from reality as to be at least misleading.

In this chapter, and throughout the book, on the other hand, there is far more original material than is found in most American texts, and some profound reasoning and analysis. The reviewer wishes to raise a question only as to the method of approach. If it should prove to be the most fruitful approach, this book will of course gain steadily in prestige.

JOHN ISE

University of Kansas

Elements of Modern Economics. By ALBERT L. MEYERS. (New York: Prentice-Hall. 1937. Pp. xi, 363. $4.00.)

The task of writing an elementary text in the principles of economics is not what it used to be. Today the author has no great synthesis like that of a Mill or a Marshall to guide him but at his peril must plot his own course from a host of authorities whose writings cover parts of the field and who only too often are not in marked agreement. Undismayed by this situation Professor Meyers has written a beginning text of about 350 pages on neo-classical economic theory in a noble effort to incorporate the significant contributions of Chamberlin, Robinson, Schumpeter, Robertson, Keynes, Robbins, Hicks, Hayek, Mises, and others.

The result can hardly be accepted as a satisfactory synthesis. Rather, it appears to be an arbitrary grafting of the new to the old. Homage is done not only to such old friends as "time preference" and "total utility" but

also to such upstarts as "liquidity preference" and "monopolistic competition." But the assimilation of the new concepts is far from complete. Thus monopolistic competition plays a major rôle in the chapters on price, but in those on distribution disappears almost completely from the scene.

By far the best part of the book is that on demand and price (chapters 4-10). The teacher who is anxious to include in the elementary course the recent developments in monopolistic competition may find here useful assignment material, for the treatment is concise, reasonably simple, and non-mathematical.

The last half of the book, which deals chiefly with distribution theory, but also contains chapters on such special topics as banking and business cycles, adds little to what is already available in a dozen other texts. Some of the chapters, such as those on "Valuation of income-producing property" and "Business cycles," are so brief as to be of dubious value. Distribution theory is dealt with at greater length. The treatment is the common one with even more than the usual tendency to be unclear as to the presuppositions, particularly those having to do with the time period or kind of competition involved.

The chapters on wages and unemployment well illustrate this difficulty. In the discussion of wages the elementary student is told that the absence of trade unions need lead no one to fear for the welfare of the laborer even if employers conspire to lower wages; for then, "a profitable opportunity would be presented for certain laborers to quit the ranks of labor and become employers, thus breaking the monopoly power of the conspiracy." The person trained in economics will see readily enough that the author must be assuming ideal, long-run, atomistic, competitive conditions (which are nowhere adequately explained in the text). But the elementary student will surely conclude that a few discontented steel workers, for example, can actually remedy their position not by joining a union but by simply organizing their own plant for the manufacture of steel rails.

Possibly some of the difficulty results from the apparent anxiety of the author to make a case against labor unions and artificially high wages. Thus the chapter on wages points out that limitation of membership in a trade union is a denial of opportunity to workers; but the chapter on interest does not mention the fact that imperfect competition may deny freedom of investment to savers. Again in the discussion of cyclical unemployment the emphasis is all on the vicious effects of rigid wages; and nothing is said about other prices or costs which may be inflexible. It is *ex parte* writing of this kind which lends verisimilitude to the common reproach that neo-classical economic theory is a vehicle of justification and not of explanation.

George R. Taylor

Amherst College

Diminishing Returns and Planned Economy. By GEORGE M. PETERSON. (New York: Ronald. 1937. Pp. xii, 254. $3.00.)

The chief merit of this stimulating volume is its detailed examination and illustration of the operation of the law of diminishing returns with two factors varying at the same time. In this the author has departed from the usual explanations of the law in terms of fixed and variable factors. Largely for purposes of convenience he assumes a symmetrical curve representative of total output resulting from combinations of an infinitely small unit of the first factor with a large unit of the second factor through all the possible combinations until an infinitely small unit of the second factor is combined with a large unit of the first factor.

Opinions will probably differ as to whether or not the author's claims for the superiority of this method of presentation are justified. No new relationships are discovered. Without question, it does call attention to certain features and relationships which are sometimes overlooked or erroneously treated. On the other hand, this method of presentation appears to the reviewer to complicate unnecessarily the concepts required for the mastery of the principle. Actually, in order to determine the marginal output due to each of the factors, he has to resort to partial differential equations which in effect hold one factor constant.

Without question, the fixed and variable-factor approach approximates the problem faced by many business-men and in addition is a necessary condition for any marginal analysis. On the other hand, having all factors varying at the same time more nearly approximates the realities of the situation faced by those attempting to plan the economic activities of a nation. This latter method has the merit of focusing attention on the national interest in obtaining the optimum proportioning of all the factors of production.

Some readers may be concerned to find the author holding the view that the law of diminishing returns is the *most* important principle underlying economic relations. But they will be even more surprised when they find that he has arrived at this high evaluation as a result of making the phenomena of diminishing utility a special case of the law of diminishing returns. Just how the newer explanation of the demand schedule in terms of indifference curves can be fitted into this unusual scheme the reviewer is unable to see.

After such a thorough analysis of the law itself and the curves drawn to represent various aspects and derivatives of it, the reader may be disappointed at the lack of integration between this section of the book and the later section dealing with a planned economy. Although this latter section is a stimulating, thought-provoking discussion of the problems involved, it does not appear to be a rigorous treatment of the subject matter either from the standpoint of the application of the law of diminishing returns

or from the standpoint of the economist's place in a planned economy.

Much time is spent in a chapter on "Diminishing returns and population" in discussing the optimum population and the physiological value of various interchangeable foods which appear to be at variance with their exchange value. In such discussions as this it might have helped to point out the specific contribution that the economist could be expected to make in the solution of such problems.

In discussing planning the author, by the emphasis which he gives to recent legislation, infers, as is popular, that economic planning rather largely originated with the New Deal. Yet if one studies legislation on banking, taxation, inheritance, public-utility regulation, legislation chartering and regulating corporations, and the laws relating to immigration and the tariff, the disposal and use of our public lands, forests and mineral resources, one wonders if "economic planning" is not merely a new term for an intensified use of an old form of legislative action.

One will read with approval most of the suggestions for social economic planning in the United States as listed in Appendix A.

WALTER W. WILCOX

Iowa State College

Introduction to Economic Analysis. By ARCHIBALD MACDONALD MCISAAC and JAMES GERALD SMITH. (Boston: Little Brown. 1937. Pp. x, 444. $1.40.)

An ancient philosopher once wrote that "of the making of many books there is no end," which is apropos to the ever increasing number of books on elementary economics. Only a few of the many which appear can possibly stand the test of actual classroom use over a long period of time. This book is the second of a series of six on economic and social institutions which combined may serve as a basis for an introductory course in economics. Its reason for being is that it is something new under the sun.

An examination of the purposes of the authors reveals that they hope to close the gap that exists between pure economic theory and real economic life. They emphasize the monopolistic elements in modern society and relate the entire price system to the theory of price adjustment under conditions of monopolistic competition. They consider the influence of monopolistic conditions in the determination of wages, rent, interest, and profits. One of their chief objectives is to make available to elementary students a systematic, concise and simplified treatment of some of the important contributions to economic analysis that have been made in recent years by Edward Chamberlin, J. M. Keynes, Joan Robinson, and others.

This volume is divided into 16 chapters which deal with the nature and purposes of economic analysis, production, consumption, and distribution, supply and price under competitive and monopolistic conditions, and con-

sumer's and producer's demand. The last six chapters (a mere 166 pages) treat wages and rent, capitalization, interest and investments, enterprise and profits, economic equilibrium, and the business cycle. The numerous "figures" and the accompanying "tables" help to visualize the theory presented, although at times the student may wonder whether the "figures" are of major, and the theory they illustrate of minor, importance. Added to one-fourth of the chapters are "mathematical notes" which may clarify the presentation of the subject for "some students." Although these notes may add a sense of exactness to the book, they do little more than fill space for the average student and could be relegated to appendices without destroying the usefulness of the volume.

On the whole the volume, though a segment in a series, is an excellent treatment of economic analysis for elementary students. It is not a conventional text. It is guiltless of a bibliography, an omission for which the authors are to be congratulated. Few elementary students ever use a bibliography except under compulsion; and the instructor who keeps informed on recent economic research does not need one. The book incorporates most of the new concepts found in the monographic literature. Duopoly, oligopoly, ologopsony, and monopsony are terms which have appeared from time to time since Karl Schlesinger used the term oligopoly in 1914; but only a very few of the most recent texts have made use of any of them. That they are more exact concepts than the description of theories in use and that they are accepted widely enough to be incorporated into elementary texts may be questionable. However, time and usage may confirm the wisdom of the authors in this pioneering venture.

CURTIS HUGH MORROW

Colby College

L'Equilibre dans les Relations Economiques Internationales. By ALBERT AFTALION. (Paris: Domat-Montchrestien. 1937. Pp. 466. 60 fr.)

Professor Aftalion is concerned with equilibrium in "la balance des comptes," which he defines as the international balance of debts and credits arising from the exchange of merchandise and services during a given year, together with those arising from previous capital transactions payable during the year. He examines five theories. Starting with the simple barter theory inspired by J. B. Say and the theory of equilibrium through gold movement attributed to Ricardo, he deals with capital movements, exchange fluctuations and variations of the discount rate and considers their adequacy as explanations of the tendency to the reëstablishment of equilibrium in the international accounts. One by one he examines and rejects these theories. Though under favorable conditions some of them may supply a partial explanation, none of them is adequate to explain all the observed tendencies. Some of the explanations are condemned along with the quantity

theory of money upon which they are based. But the chief weapon of attack is an appeal to the facts—the actual changes that have taken place in the accounts of various nations since the war.

Doubt is cast not only upon these five theories as explanations of equilibrium, but also upon the certainty that a movement toward equilibrium will actually occur. That the forces operating upon international payments will tend toward equality depends upon a multitude of factors. Under certain conditions forces may be set in motion that counteract the equilibrating mechanism or even paralyze it completely. All that can be stated with confidence is that a disequilibrium is sometimes capable of provoking reactions which tend to favor its removal.

As a positive contribution to the solution of this problem, the author claims that where a tendency toward the reëstablishment of a balanced condition is brought about spontaneously it is the result of a "simple stimulant."

> The stimulant results from the inequality between revenue or disposable income and production, an inequality which is generated by a disequilibrium of the balance. A deficit in the balance implies a diminution of revenue relatively to production which diminishes the absorptive capacity of the domestic market; this condition leads to an increase of exports and a decrease of imports, both of which contribute to the removal of the deficit. An excess in the balance of accounts, on the other hand, means revenue greater than value of goods produced—a condition entailing large purchases of foreign merchandise and contributing to the disappearance of the excess.

This statement is not offered as a substitute for the rejected theories of automatic equilibrium. The author insists that the facts do not justify assurance that it will always operate effectively. Care is taken to indicate the obstacles which oppose the stimulant, the numerous psychological, political and economic factors which condition its appearance and efficacy. Changes in the structure of the population, business-cycle fluctuations, government regulations, wars, harvests and other fundamental changes may effectively prevent the restoration of international balance.

Though the explanation here advanced resembles the buying-power theories of Ohlin, Iverson and others, the operation of the regulatory mechanism which it presents does not, apparently, involve the transfer of international payment. The stimulus to the reëstablishment of equilibrium is set in motion before payments have been transferred and before any monetary changes resulting from such transfer have been effected. The income available for the purchase of domestic goods varies with the volume of foreign purchases. The effect of this variation on prices and on the volume of imports and exports tends to restore the equilibrium.

Though Aftalion's analysis is admirably lucid and will undoubtedly contribute to a better understanding of a difficult subject, it cannot be said that his positive contribution is substantial. The modern writers whom he

criticizes have dared to attempt to trace the subsequent effects of the initial stimulus that he hesitates to follow. It is not surprising that in the confusion of post-war international commercial relations these venturesome thinkers should be faced with facts which are not adequately accounted for in any single theory.

Ralph E. Freeman

Massachusetts Institute of Technology

Production, Pricing and Unemployment in the Static State. By W. L. Valk. (Haarlem: Netherlands Economic Institute. 1937. Pp. xii, 138. 3 fl.)

Following a previous essay on business-cycle diagnosis, Dr. Valk now proceeds to business-cycle "therapy." As a preliminary thereto he devotes this study to a reëxamination of the theory of general equilibrium, and particularly to the possibility of technological unemployment in a static state. While pure theorists will be interested in his modifications of Cassel's equations, the main value of the work lies in his theoretical and practical treatment of "static" unemployment.

Dr. Valk traces this unemployment to the behavior of the technical coefficients of production. Where these are rigidly fixed by technological requirements, then, unless the supplies of the factors happen to exist in the same ratio, unemployment of some factor is unavoidable even in a static state. If technology demands ten units of capital to one unit of labor, and there exist ten units of capital to three units of labor, then, though all capital is employed, some labor will be out of work. Even if wages were zero, some labor would be unemployed. (In Cassel's equations the solution would require negative values.) If the technical coefficients are capable of change, but within narrow limits, unemployment might still persist, but it could be made to disappear if wages were sufficiently flexible. Moreover, as the factors approach complete variability, the maximum level of wages consistent with full employment will tend to rise. Thus the degree of unemployment in a static state would seem to depend on the prevailing "technological ratio"; and in any state the relation of this ratio to the ratio of the supplies of the factors will play an important part in the problem of unemployment.

In present economic systems, the process of rationalization so enlarges the scope of costly and elaborate capital installations as greatly to increase the difficulty of varying the technical coefficients. And this is reënforced by the continual process of invention which has a bias toward capital-using rather than labor-using techniques. Hence today, unless wages are extremely flexible, "technological" unemployment is likely to occur. As wages are tending to become quite the opposite, a permanent volume of unemployment is more than a threat. Moreover, any increase in the relative volume of labor, any new "capitalistic" inventions, any greater wage rigidity, will make for this kind of unemployment.

In such a situation the appropriate cures would be: (a) decrease the volume of labor, (b) make wages more flexible, (c) increase the supply of capital or, as a last resort, (d) revert to less capitalistic methods of production. As remedies (a) and (b) are not easily effected, as remedy (c) is opposed by all who think we save too much now, and as remedy (d) is a counsel of despair, perhaps the best thing is to educate the proper fraction of the population to a life on the dole.

This is an interesting and provocative essay. But, as the author says, it is highly technical and not intended for the general reader. Perhaps Stuart Chase should read it, if only to see how economists use words when they get really "scientific."

J. A. Estey

Purdue University

Staat, Stände, und der Gerechte Preis. By Rudolf Kaulla. (Vienna: Springer. 1936. Pp. 161.)

This little book makes a plea—in a world which hardly seems to need such pleading at this time—in favor of government interference in economic matters, that is, more specifically, in favor of governmental policies to insure the "justitia pretii," just prices for goods and services. The whole approach is rather typical of the totalitarian conception of state and society in which economic valuations are subordinated to broader social and political considerations.

In a first chapter, occupying about one-fourth of the book, the author traces the problem of the "just price" in its connection, with the history of the theory of value—which he identifies with exchange value—and the economic and cultural influences which lead to changing attitudes toward this problem. He reviews instances in the *jus gentium* of ancient Rome, the theologically conditioned economic doctrines of the scholastics, the policies of the medieval towns, as well as of the mercantilists and physiocrats, all of them recognizing the obligation of civic authorities to regulate prices in the interest of equity and social justice. The rising doctrine of economic liberalism in the eighteenth century is shown not in itself to challenge the ideal of the "just" price, though identifying the just with the "natural" price, but to challenge rather the method of achieving it through governmental regulation instead of through the play of free competition. The nineteenth century theories of values, however, objective as well as subjective ones, with the exception only of those of the socialists, are characterized as more and more deliberately dissociating the economic concept of value from the ethical concept of justice.

In a second chapter the author proceeds to demonstrate that, regardless of economic theories and ideals, governmental influences on the formation of prices are necessarily always present and cannot in fact be eliminated from any developed national economy. All economic life, he points out,

functions on the basis of the legal and financial structure of the state on whose fiscal policies, established legal standards, and prevailing degree of stability and general security prices depend. The distinction between "artificial" government and "natural" economic prices is hence characterized as a mere fiction.

Two further chapters discuss, somewhat ramblingly, various ideas and principles bearing on the problem of what constitutes just prices for goods and services. These ideas center upon the ethically simple and undeniable claim that ultimately all economic activity must serve to maintain people in reasonable comfort and decency. Hence the idea of justness does not apply to prices of goods taken in isolation, or to wage rates by time or by piece, but only to a man's total earnings. These total earnings are again to be considered only in conjunction with social institutions such as various forms of insurance, pensions, and other social services having the effect of additional income. As regards the standard of living to be aimed at, the author denies that a maximum of consumed goods is desirable and that it presents a true measure of national well-being, but rather the optimum of satisfaction and enjoyment derived from a given amount of goods.

> It is the age-old wisdom of great philosophers and religious teachers, which is ever again found valid, and which always reëmerges after periods of marked materialism, that the path to contentment lies not through increased wealth in material objects of enjoyment, but through the simplification of the means of life (p. 110, reviewer's translation).

He claims that no lowering of cultural standards need result from such reorientation to a simple style of life.

The last chapter deals primarily with the issue of government interference in the interest of occupational groups. The author makes the point that the nation as a whole may be vitally interested in the preservation of certain occupational groups because of their valuable social, cultural and political characteristics, even though such occupations, when exposed to the free play of competition, may be unable to provide a living for their members. Among these groups he discusses specially the artisans, the independent middle class, and the peasants, the latter particularly also in connection with the problem of autarchy. To all such classes and occupations, he argues, the state through sacrifices borne by all, should assure "just prices" to maintain them against large-scale capitalist enterprises as well as against foreign competition.

As appears from this brief résumé, the book is an interesting reflection of present-day economic and political conditions in Germany. It is, however, free from a narrow party viewpoint, being distinguished by the breadth of its historical-cultural outlook, and by a certain humanely-philosophical tenor.

John V. Spielmans

Washington, D.C.

NEW BOOKS

ATKINS, W. E. and MAGEE, J. D. *A problem approach to economics.* (New York: Harper. 1937. Pp. viii, 572. $2.75.)

BARONE, E. *Le opere economiche.* Vol. iii. *Principi di economia finanziaria.* (Bologna: Zanichelli. 1937. Pp. 526. L. 40.)

BLOCH, H. S. *La théorie des besoins de Carl Menger.* (Paris: Rev. Bibliographique de Droit. 1937. Pp. 185. 30 fr.)

CROBAUGH, M. *Economics for everybody, from the pyramids to the sit-down strike.* (New York: Morrow. 1937. Pp. 293. $2.50.)

The author of this little book has attempted to fill a very large order. The discussion romps through the historical field of economic ideas from early Chinese culture down to the latest reverberations of the New Deal. The first chapters point to the fact that there is little new under the sun. The earliest example of unemployment relief and planned public works is found in building the great pyramids of Egypt; Secretary Wallace's "normal granary," in the alleged incident of Joseph's speculation in grain; and the dole on a large scale, in the endeavor of the Gracchi to quiet discontent by feeding the Roman rabble. More important, the author attempts to trace the origin, development, and tendencies of the capitalistic system, and the economic ideas growing out of this system—what one writer recently has called *The Folklore of Capitalism.*

Limitations of space make the treatment quite general and sketchy. In a single chapter (pp. 188-200) the reader is introduced to: anarchism, syndicalism, Fabian socialism, guild socialism, and the single-tax program of Henry George. All the chapters are relatively short, and many have large coverage. Under these conditions, one finds broad general statements, almost no analysis, some half-truths, and a sprinkling of erroneous statements. Since no authorities are cited in the text, the author, in some cases, appears to draw upon a lively imagination.

Many of the economists of the United States certainly would not relish the idea that their task was one of "defending and justifying" the present economic order (pp. 15, 269). Proudhon would not have been pleased to be denominated a utopian socialist (p. 111). Teachers in our business schools might well squirm under the implication that they had "given up economic thinking" (p. 147). The followers of Marshall, the so-called neo-classicists, should object to the statement that they are drawn from those who have "no decided opinion one way or another" (p. 159).

In the concluding chapters, the author stresses the fact that, in all countries, capitalism is in an extremely critical situation. The New Deal, aside from recovery aims, was and is an attempt to reform capitalism; and, by implication, business, if it does not want something more drastic, ought to play ball with President Roosevelt.

Despite limitations of space and inadequacy of treatment, the book is a surprisingly good running account of the growth of economic ideas and policies. As its title suggests, it is designed for the general reader. The writer has succeeded in making the generally uninteresting subject of the history of economic thought close to entertaining reading; and this, by the way, is an accomplishment in economics.

EVERETT W. GOODHUE

DOBB, M. *Political economy and capitalism: some essays in economic tradition.* (London: Routledge. 1937. Pp. viii, 360. 10s. 6d.)

ELY, R. T. and HESS, R. H. *Outlines of economics.* 6th ed. (New York: Macmillan. 1937. Pp. xviii, 1064. $3.50.)

The new edition of "Ely," offered as something "more than an ordinary new edition," in fact, "almost a new book," has been partly rewritten, rearranged, and brought down to date. It is a fairly thorough revision, and with its new material should maintain its position as one of the most popular American texts.

Although the authors include in the new edition judicious discussions of recent legislative enactments, they give little attention to many new developments in theory. The theory of imperfect competition is scarcely touched; and contributions of Keynes, Hawtrey, Hayek, Pareto, Knight, Cassel, and others are not mentioned. Thus the new *Outlines* is little changed in its fundamental theory.

Having read *The Great Change* the reviewer opened this book with some misgivings, fearing lest Professor Ely might have slipped over into the camp of the reactionaries; but the book is generally liberal in its point of view, as the earlier editions were. The discussion of fascism is quite too favorable to the "Sawdust Caesar," and throws little light on the fundamental nature of this ominous system; but the treatment of socialism and communism is objective and judicious.

JOHN ISE

GOTTL-OTTLILIENFELD, F. *Wirtschaft: gesammelte Aufsätze.* (Jena: Fischer. 1937. Pp. v, 87. RM. 3.60.)

GRAHAM, F. D. *Die Stabilisierung der wirtschaftlichen Entwicklung.* Kieler Vorträge 47. (Jena: Fischer. 1937. Pp. 23.)

GRAHAM, M. K. *The synthetic wealth of nations: an inquiry into the nature and causes of the Wealth of Nations by Adam Smith, LL.D., as condensed and extended.* (Nashville: Parthenon Press. 1937. Pp. 328.)

HESSE, A. *Grundriss der politischen Okonomie.* Band III. *Volkswirtschaftspolitik.* (Jena: Fischer. 1937. Pp. viii, 346. RM. 13.50.)

KUCZYNSKI, J. *New fashions in wage theory: Keynes-Robinson-Hicks-Ruef.* (London: Lawrence and Wishart. New York: Internat. Pubs. 1937. Pp. viii, 99. 3s. 6d.)

This little book of disconnected statistical essays covers a wide territory. The first fifty pages feature a sharp attack upon the wage and employment theories of John Maynard Keynes, Joan Robinson, J. R. Hicks, and Jacques Rueff. The remainder of the work is given over to five studies on a variety of statistical topics ranging from wages in British-controlled textile factories to productivity and unproductivity in the United States.

The attack upon Mr. Keynes and Mrs. Robinson is especially bitter, their theories being held to provide an "absolutely new and perfectly fitting theory for anti-working class dictators." The other writers fare scarcely better. The burden of Mr. Kuczynski's complaint is that an academic and business audience has accepted too uncritically the view that unemployment is to be correlated with high wage rates; the view that inflation will prove the way to a reducing of interest rates and the advance of the "marginal efficiency of capital"—all to the advantage of labor; and the view that a surplus of unemployed workers in our economic system is to be commended.

The weapons of attack include a combination of statistics and satire. One fears that all of the writers, and especially Mr. Keynes, would object to the manner in which their arguments are summarized. Yet in the end, one must

grant that Mr. Kuczynski has not been amiss in much of his criticism even though he failed to outline what, to him, may be a satisfying wage theory. His principal demonstration is the highly doubtful character of most of the data upon which the opposing argument rests.

One other essay in the volume which deserves brief mention is that on productivity and unproductivity in the United States. In this, the writer seeks to measure statistically the "unproductivity" of American industry. His crude estimate for the period 1897-1933 takes into account both the productivity losses due to unemployment and losses ascribed to the unnecessary expansion of overhead trades.

COLSTON E. WARNE

LOVELY, T. J. *Digest of economics.* (New York: Globe Book. 1937. Pp. 384. $1.08.)

MINS, L. E., editor and translator. *Engels on capital: synopsis, reviews, letters and supplementary material.* (New York: International Pubs. 1937. Pp. ix, 147. $2.)

Marxian scholars will find much of interest in this collection, issued by the publishers in observance of the seventieth anniversary of the publication of the first volume of *Das Kapital.* It begins with two of Engels' numerous reviews of Marx's famous work. One of these originally appeared in the Leipzig *Demokratisches Wochenblatt.* (Note conflicting publication dates, pp. vii, 3.) The other was written for the *Fortnightly Review,* but was refused by the editor, John Morley, and has now been published for the first time. Another feature is Engels' detailed synopsis of the first four parts of Volume I of *Das Kapital.* This is followed by a supplement to Volume III of the same work, written by Engels shortly before his death. Several letters by Marx and Engels make up the appendix. The previously unpublished material has been obtained from photostatic copies of manuscripts in the archives of the Marx-Engels-Lenin Institute in Moscow.

The chief significance of the book lies in its concise presentation of Engels' interpretation of Marx. We may add that for novices in socialistic theory, a perusal of this little volume should prove helpful as a preparation for the Marxian dialectics.

J. E. MOFFAT

O'GERAN, G. *Problems and questions to accompany Fairchild, Furniss, Buck, Economics.* (New York: Macmillan. 1937. Pp. 61. 60c.)

PABST, W. R., JR. *Butter and oleomargarine: an analysis of competing commodities.* (New York: Columbia Univ. Press. 1937. Pp. 112. $1.50.)

PIGOU, A. C. *Socialism versus capitalism.* (London: Macmillan. 1937. Pp. vii, 139. $1.75.)

PLOTNIK, M. J. *Werner Sombart and his type of economics.* (Bronx, N.Y.: Eco Press. 1937. Pp. 132. $2.)

RIECK, H. *Volkstum und Wissenschaft.* (Leipzig: Deuticke. 1937. Pp. 68. RM. 4.)

RÖPKE, W. *Die Lehre von der Wirtschaft.* (Vienna: Springer. 1937. Pp. vi, 195. RM.5.70.)

The pedagogic need for a concise work in German that would discuss the several customary divisions of the subject-matter of economics and, at the

same time, plainly link them to the central problem of economics, supplied Professor Röpke's main motive for writing this book. He endeavored, accordingly, to set his short sections on costs, the division of labor, population, money and banking, production, price, monopoly, foreign trade, distribution, etc., in their appropriate places as parts of economics construed as a theory of alternatives. Such an attempt to relieve the fragmentary, disjointed impression often conveyed by elementary economics textbooks deserves commendation if only because it must be undertaken in the presence of substantial expository difficulties.

The extent to which Professor Röpke's book surmounts these difficulties, while praiseworthy, would have been even greater had he not chosen that the book also serve to supply an economic policy designed to meet the problems of today. The inclusion of policy necessarily encumbers the presentation of economic theory when organization is the principal aim of the author, and in this book it adds little to compensate for the encumbrance. For the suggested policies of Professor Röpke, which suppose a degree of intervention necessary to create conditions favorable to a price system operating under perfect competition, to resurrect the gold standard, to secure unfettered international trade, to proceed cautiously in the redistribution of personal incomes, would appear to many persons either as unrealistic in the face of undiscussed difficulties which are present, or as not the only solutions which the analysis could suggest.

R. S. Howey

Samson, S. *First reader in economics.* (Boston: Christopher. 1937. Pp. 56. $1.25.)

Say, J. B. *Letters to Thomas Robert Malthus on political economy and stagnation of Commerce, London, 1821.* Translated. (London: Harding's Bookshop. 1936. Pp. 75.)

Scott, W. R. *Adam Smith as student and professor.* (Glasgow: Jackson. 1937. Pp. xxiv, 445. 30s.)

Smith, A. *An inquiry into the nature and causes of the wealth of nations.* Edited by Edwin Cannan. (New York: Modern Library. 1937. Pp. lx, 976. $1.10.)

Text is copied from the fifth edition, the last published before Adam Smith's death.

Watson, J. *The groundwork of economic theory.* (London: P. S. King. 1937. Pp. x, 196. 9s.)

This book contains theories of value, price, distribution of resources, capital, wages, and profits. Although intended to be elementary, the book probably maintains as rigorous standards of accuracy as are possible when crowding so much within 200 pages. The statement is entirely abstract, no attempt being made to illustrate any of the points from "real life"; indeed, so far as the reviewer was able to discover, apart from references to the Liverpool Cotton Market and two other markets on page 180, there is not a single reference to a living person (other than an author), or to any concrete thing or specific institution, in the whole book. Mr. Watson, whom the introduction reveals to be a schoolmaster, defends his treatment on the ground that the theorems of Euclid, although abstract, have their practical applications. To this defense there are two objections. First, it may be that the abstraction of Euclidian geometry from practical problems was not in the interest of mathematical progress (see Lancelot Hogben, *Mathematics for the Million*). Second, and more serious in this instance, one of the chief problems in regard to any structure of economic

theory is to know in what way its lessons are relevant to actuality; and for this problem Mr. Watson offers no solution.

A. F. W. Plumptre

Economic History and Geography

Financial Development of the United States. By William J Shultz and M. R. Caine. (New York: Prentice-Hall. 1937. Pp. xxviii, 757. $5.00.)

The authors define finance as covering "all factors involved in values—for the United States, all factors affecting the dollar sign," but they limit themselves primarily to the development of federal and state tax systems, monetary history, the institutional development of business credit and banking, capital financing, and brief glances at the tariff and international trade. There are 29 chapters, 27 of them covering the period since the outbreak of the Revolution, 15 since the Civil War, 11 since 1897, and 4 since 1920. Each chapter is broken up into major topics, such as those mentioned above, and each topic into short subdivisions which are given a heading in black type. The arrangement has the advantage, sometimes, of showing interrelationships, but the disadvantage of making the reading jumpy. It is often difficult to see the forest for the trees. This is accentuated by the authors' liking for figures and dislike of chapter summaries. They have, however, simplified the presentation of their material somewhat by including 70 tables and 23 charts. They have enlivened the discussion by inserting 39 pages of illustrations, chiefly newspaper cartoons, and by relating humorous anecdotes in the explanatory footnotes.

The quality of the book is distinctly uneven. The chapters on Federalist finance, on Confederate finance, on the World War period, and on that of "Normalcy" are the best organized. The authors seem most at home with taxation and government finance, and make the most errors when dealing with money and banking. Wampum was not used as money by the Indians before the white man came (p. 10). Very few would agree that "paper money issues had little effect upon the amount of specie in the Colonies during the eighteenth century" (p. 36). Our late dollar was devalued by 40.94 per cent, not 41.96 per cent (p. 675). Bank deposits should not be counted as part of the national wealth (chart, p. 509).

The sins of omission or insufficient explanation exceed those of commission. The debt of the National Banking System to the Suffolk and Safety Fund systems deserves mention. Nowhere is there an adequate explanation of the endless chain of 1894-96 which nearly drove us off gold. In the closing chapters there is no treatment of the gold-clause decision, no mention of the failure of deposit insurance in the states where it has been tried, no discussion of the changes in the Federal Reserve Board in 1935, and too little attention paid to the methods of present-day deficit

financing. Such classics as Horace White's *Money and Banking* and R. C. Catterall's *The Second Bank of the United States* are missing from the bibliography. The book has real possibilities, but it needs a thorough revision.

DONALD L. KEMMERER

University of Illinois

An Economic Survey of Ancient Rome. Edited by TENNEY FRANK. Vol. III. (Baltimore: Johns Hopkins Press. 1937. Pp. 664. $4.00.)

The *Economic Survey of Ancient Rome* progresses with commendable rapidity. Volume III consists of four independent studies: "Roman Britain" (118 pp.) by R. G. Collingwood, "Roman Spain" (106 pp.) by J. J. Van Nostrand, "Roman Sicily" (154 pp.) by V. M. Scramuzza, and "Roman Gaul" (266 pp.) by A. Grenier whose contribution has wisely been left in the original French. It might have been preferable to arrange the sections in chronological order following the date of the Roman occupation of each which would give Sicily, Spain, Gaul, and Britain. However, each of these regions experienced a rather unique economic fortune, owing to differences in the state of its own and of Rome's economic and political development at the time of conquest and, consequently, can be treated as a distinct unit. The length of the sections was determined largely by the extent of available evidence, rather than the relative economic importance of the several areas; and it will be only too obvious that the authors have labored under serious limitations imposed by the inadequacy of information available on many important aspects of economic life. Yet it is surprising how much has come down to us; and the character of these sources, literary, inscriptional and archaeological, is ably discussed by Grenier in his introduction. Each author has been free to present his material in his own way, but all have adhered to the general plan of the series in giving both text and translation of all significant passages from ancient authors and inscriptions. The influence of geography and geology upon local economic developments has been brought out particularly well in the sections on Britain and Gaul.

Among the wealth of topics and problems that are presented in this volume, it is possible to select only a few for special mention. Although Roman imperialism was determined by political rather than economic considerations, annexation was inevitably followed by economic exploitation both in the form of taxation by the Roman government and the influx of Italian capital employed in banking and commerce or invested in land. In general, the Roman Republic remained indifferent to the economic well-being of its subjects; but the Principate inaugurated a different policy with the result that the first two centuries A.D. showed a marked increase in the prosperity of the provinces. This is evidenced particularly by the growth of towns which depended upon a highly developed road system and a consequent

stimulus to commerce and industry. Special importance was attached to the exploitation of mineral deposits, and there are extremely interesting treatments of the administration of the mines in Spain and Britain, as well as of methods of production and smelting. In Britain, two systems of rural economy existed side by side, the villa or large farm and the village or group of small farms. Collingwood regards both as pre-Roman in origin although admitting that the villa system shows important traces of Roman influences. The expansion of the villa system which reached its height late in the third and continued past the middle of the fourth century, resulted in a decline of the towns, for the villas were largely, although not entirely, self-supporting and their rise marked a shift of production and trade from town to countryside. The general picture which Grenier draws of the economic history of Gaul has an important bearing upon the problem of the economic decline of the Roman world. At the time of the conquest Gaul was thickly populated, rich, and well advanced in the exploitation of its natural resources. This prosperity attained its zenith in the course of the first and early second centuries A.D. as a result of internal peace, the influx of capital, and the expansion of trade and industry. A decline, due to depopulation, set in about the time of Marcus Aurelius (161-180 A.D.). Depopulation, caused primarily by a declining birth rate, but accentuated by plagues and the ravages of warfare, deprived the country of the reserve strength necessary for recovery from the disorders of the third century. The consequent falling off in the revenues led the government to adopt a policy of *étatisme,* whereby the surviving population, urban and rural alike, was bound to hereditary occupations and condemned to an economic servitude which drained it of its remaining energy and initiative.

A. E. R. Boak

University of Michigan

Recherches et Documents sur l'Histoire des Prix en France de 1500 à 1800. By Henri Hauser. (Paris: Les Presses Modernes. 1936. Pp. 522.)

The book under review is an outcome of planned international coöperation in the field of economic history. In 1930 an International Scientific Committee on Price History was formed under the chairmanship of Sir William Beveridge with headquarters in the London School of Economics and, owing to the support given by the Rockefeller Foundation, set forward once again in an endeavor to narrate the epic of prices. The Committee issued to the collaborators in various countries instructions as to the method to be applied to the available primary sources. A time limit of five years was agreed upon.

The present volume of Mr. Hauser is a result of those efforts. Another volume, written by Dr. Elsas pertaining to the history of prices and wages in Germany, was recently published in Leiden.

The problem of a history of prices is a thankless task and full of pitfalls and frustrations. Anyone who is conversant with the subject and who, like the present reviewer, has worked in that field, has a long story to tell and will readily consent to the statement of a French economist that a history of prices is the most attractive and at the same time the most elusive and illusive part of economic history. In fact the introduction to the statistical tables in the present volume is more than anything else a critical essay on the limitations of a history of prices.

The economists grudge no pains indeed to start and restart over again; and the history of prices belongs to those Sisyphean drudgeries which recur from period to period all frustrations notwithstanding. Over and over again economists and statisticians in a likely misdirected effort grub for a solution of a high-spirited task; and frustration is the end of it.

If there is any truth in the saying that history repeats itself and historians one another this certainly holds for the history of prices. In face of so many scientific failures one is reminded of Colonel Torrens' severe verdict which designated Dr. Tooke's *History of Prices*—a pioneer work after all—as the "most illogical work which has ever been contributed to the world on a scientific subject." Tooke himself repaid Torrens' defense of the Peel's act of 1844 by stigmatizing it as "a total, unmitigated, uncompensated and, in its consequences, a lamentable failure."

The preliminaries and difficulties involved in the problem, such as the insufficiency of a purely statistical approach (as opposed to a critical economic interpretation and an inside evidence) are clearly expounded by Mr. Hauser. Writers without experience of trade are always fancying that a table of prices is an easy and simple thing to understand, and a whole literature assumes that simplicity, but, in fact, statistical tables, even those which are most elaborate and careful, are not substitutes for an actual cognizance of the facts. A series of price-data without any further comment is just a series of dumb figures. Artificial prices run side by side with natural ones. The price of an article which can be indefinitely manipulated, is treated like the price of articles which can scarcely be manipulated at all. In a hundred cases one may see "prices" compared as if they were prices of the same thing, when, in fact, they are prices of different things.

To the reviewer's mind the cardinal point in Mr. Hauser's contribution lies in his extended and ingenious discussion of the problem of purchasing power of money in history (or the history of the "value" of money). With admirable lucidity he brings home the following conclusion; "Purchasing power? An insoluble problem and, I should say, a problem even impossible to state, historically, in quantitative terms."

It is to be wondered if it has escaped the attention of the committee in charge that an attempt most similar to that planned by the committee had been undertaken on occasion of the World Exposition of 1873 under the

directorship of the late Von Inama-Sternegg. The material collected for the old Austro-Hungarian monarchy (of which this reviewer has made a rather profuse use in his *Geschichte der Böhmischen Industrie in der Neuzeit*) is to be found in the basement of the University Library of Prague together with a printed report by Dr. Schebek.

ARTHUR SALZ

Ohio State University

NEW BOOKS

ABERNATHY, T. P. *Western lands and the American revolution.* Univ. of Virginia Inst. for Res. in the Soc. Sci. (New York: Appleton-Century. 1937. Pp. 428. $4.)

ANGUS, H. F. *The problem of the peaceful change in the Pacific area: a study of the work of the Institute of Pacific Relations and its bearing on the problem of peaceful change.* (New York: Oxford Univ. Press. 1937. Pp. vii, 193. $2.)

Treats of land utilization, population and migration, industrialization, trends and related problems bearing upon the unrest in Japan, China, Australia, Philippine Islands.

BARTHOLOMEW, J. *The Oxford economic atlas.* 8th ed. (New York: Oxford. 1937. Pp. 76. $2.)

BAXA, J. *Die Zuckererzeugung 1600-1850.* (Jena: Fischer. 1937. Pp. 231. RM. 32.)

BEARD, M. *A history of the business man.* (New York: Macmillan. 1937. Pp. vi, 779. $5.)

BENGTSON, N. A. and RIGDON, V. E. *Economic geography manual.* (New York: Prentice-Hall. 1937. Pp. 185. $1.50.)

BENNETT, H. S. *Life on the English manor: a study of peasant conditions, 1150-1400.* Cambridge stud. in medieval life and thought. (New York: Macmillan. 1937. Pp. 382. $4.50.)

BOGART, E. L. and BROWNE, R. B. *Work-book in economic history of the American people: form B.* 2nd ed. (New York: Longmans. 1937. Pp. 94. 80c.)

CORBETT, P. E. *The settlement of Canadian-American disputes: a critical study of methods and results.* (New Haven: Yale Univ. Press. 1937. Pp. viii, 134. $2.50.)

This monograph is one of a series, sponsored by the Carnegie Endowment for International Peace, whose object is the impartial study of all phases of Canadian-American relations. The present study, by the dean of the faculty of law of McGill University, gives a condensed, well-organized account of the settlement of the disputes which have arisen in the course of 150 years over boundaries, the fisheries, the use of inland waterways and miscellaneous claims. Under the latter heading come cases arising from violation of prohibition laws such as the "I'm Alone" case. The author, although he has written for "all intelligent students of political and social phenomena," has made but few concessions to the general reader. The text bristles with technical phrases, mostly in Latin. No glossary is appended, nor is the book provided with the maps which are indispensable to the understanding of boundary and fishery disputes. Economic aspects of the various disputes are given but passing mention. For example, the reader is given no basis for assessing the economic significance of the perennial disputes over the fisheries.

The omission of economic data, however, enables the author to deal, within the limits of a thin book, more thoroughly with the political material. He has succeeded admirably in showing what the revival of international arbitration by the United States and Canada at the end of the eighteenth century has meant in the development of international law. The reasons for the remarkable success which these countries have attained in the peaceful settlement of their disputes, even those in which "vital interest" and "national honor" seem to have been involved, Dean Corbett finds in their respect for judicial methods and their common legal tradition which have caused them "to endow their joint tribunals with the power of deciding according to 'law and equity,' and then to accept, . . . a liberal interpretation by the arbiters of what constitutes equity in the matter at issue" (p. 128). Yet the present situation is not ideal. There will be plenty of disputes in future years. In spite of the long tradition of arbitration, it is always possible that selfish interests may be able by misleading propaganda to prevent impartial examination of facts. The author stresses the need of "a firm agreement, without reservations, to submit all differences to arbitration by a standing tribunal of the best judicial talent in both countries" (p. 130).

PERCY W. BIDWELL

COTTA, F. *Economic planning in corporative Portugal.* (London: P. S. King. 1937. Pp. xiv, 188. 8s. 6d.)

GUILFOYLE, M. J. *Custom: an historical synopsis and commentary.* Canon law stud. no. 105. (Washington: Catholic Univ. of America. 1937. Pp. 159. $2.)

HACKER, L. M., MODLEY, R. and TAYLOR, G. R. *The United States: a graphic history.* (New York: Modern Age Books. 1937. Pp. 243. 75c.)

HAMMOND, J. L. and HAMMOND, B. *The rise of modern industry.* 5th ed., rev. (New York: Harcourt Brace. 1937. Pp. xiii, 303. $3.)

This new edition of the well known book of the Hammonds has an additional chapter on the "World economic crisis of the twentieth century." In many ways the chapter is difficult to follow. There are implications which depend upon particular readings of the importance of men and events. The broader outline, however, is clear and should be of especial interest to American readers. The Hammonds hold that economic internationalism has preceded political internationalism in the modern world. The modern world, therefore, lacks the balance achieved by Rome, for in antiquity political power and economic interdependence developed simultaneously. The all-enveloping economic system of the modern world "demands of the states that live by it some respect for their common interest." In the earlier nineteenth century, the tendencies toward free trade gave vital though imperfect emphasis to this need of mutual self-respect. In the late nineteenth century, British prestige and the open-door policy in the Empire prevented overt breach of the peace. The Manchester School, however, advocated a policy of non-interference in European affairs and thus prevented any significant advance toward a new political order.

"The place Great Britain held after the Napoleonic Wars is now held by the United States." She has become a dominant factor in economic and social change, but her "obligations to Europe do not end with such services." As with Britain in the nineteenth century, "there is the same temptation to stand aside from Europe's difficulties. . . . But the future of mankind seems to depend today on the answer that the United States gives to that sudden and disturbing summons" to the responsibilities of world power.

A. P. U.

Harvey, R. F. *Jean Jacques Burlamaqui: a liberal tradition in American constitutionalism.* (Chapel Hill: Univ. of North Carolina Press. 1937. Pp. viii, 216. $2.50.)

High, S. *Roosevelt—and then?* (New York: Harper. 1937. Pp. 326. $3.)

Hubbard, G. D. *The geography of Europe.* (New York: Appleton-Century. 1937. Pp. xii, 876. $5.)

This survey of European geography is comprehensive enough to contain much material of interest to economic geographers. A country-by-country approach is used, but nations are grouped according to climatic similarities, and intranational analyses stress natural regions. An introductory section gives the general physical and historical background, and in conclusion there are chapters summarizing the geography of agriculture, commerce, and cultures. Many excellent maps locate places mentioned and clarify textual reasoning. As much space is given to Russia as to all of the British Isles plus France.

The maturity of the author is apparent in the social perspectives and general philosophical approach. Questions and extensive bibliographies follow each chapter. References to general works would have been more helpful if particular chapters had been indicated.

Robert B. Pettengill

Jenkinson, H. *A manual of archive administration.* (New York: Wilson. London: Lund Humphries. 1937. Pp. xvi, 256. 12s. 6d.)

This is a new and revised edition of a book first published fifteen years ago which has remained a standard authority in its not overcrowded field. The author has been a lecturer at Cambridge and is reader in diplomatic and English archives in the University of London. In addition he writes from long administrative experience in the British Public Records Office. His manual therefore is both scholarly and practical. Its archival lore discloses but does not pause to explore time-mellowed historical vistas that American records lack; but in the main it deals with current aspects of the art of preserving intact the documentary skeleton of history. It tells us what we thought we knew but probably did not, how to distinguish archives from incinerator fuel on the one hand and from museum pieces on the other. It also tells how to classify, store, repair, preserve and make accessible the deluge of material that must be made permanently available for officials if they are to deal intelligently with the tasks of the day, and for students if the future history of our complex world is to be more than a tissue of myths and legends. The care of public records is a highly skilled profession. In America this volume may make that fact more generally known than heretofore.

Victor S. Clark

Jennings, W. S. *A history of the economic and social progress of the American people.* (Cincinnati: South-Western Pub. Co. 1937. Pp. xiii, 811.)

This book is the third general text by the author on the subject of American economic history. It may well be doubted if the present volume by Mr. Jennings will succeed in conveying to the elementary student a coördinated picture of the history of our economic and social progress as a whole. The topical method employed by the author has resulted rather in a book which presents a number of separate outlines of chronological development in a large number of seemingly unrelated themes. The final chapter, which gives a summary by periods, scarcely compensates for the lack of unity of the book as a whole.

Even the separate chapters by themselves may be said to suffer from the same failure to give an integrated picture of the unfolding of the complex of institutions, relationships, and public policy in the particular phase of our economic life of which they treat. For example, in the chapter on money and banking, the topics taken up in order are: commodity money, paper money, coinage laws, the struggle over silver, the gold standard, banking, business cycles, panics, war finance, government receipts and expenditures. The result is that the reader is conducted at least five times through the whole range of our history in the course of one chapter, and that the discussion of the greenback question precedes the mention of colonial metallic money and our federal coinage laws, and that the New Deal silver policy is disposed of before we come to the history of our banking institutions. It would seem that the author's method results too frequently in a mere cataloguing of facts, taking them out of their organic, historical context for the sake of systematic and simple exposition, thus depriving them of their true meaning.

Though there is, generally speaking, an abundance of factual material in the book, the selective principles which have guided the author in his choice of detailed information have led to some important omissions. A few examples may be cited. There is no discussion whatever of American imperialism beyond a mere statement of our colonial acquisitions in the second chapter of the book, a footnote on Philippine independence (page 84), and one sentence (page 778). There is likewise no mention of such subjects as investment banking, foreign investments and war debts, beyond two short, isolated sentences in the final chapter. In the chapters on agriculture and animal life, we find three and one-half pages devoted to the poultry business and bee-keeping, while scarcely one-half of one page is given to the subject of agricultural coöperation. In discussing legislation affecting the merchant marine, no mention is made of the subsidy policy of 1920, 1928 and 1936.

Max Gideonse

Jones, F. M. *Middlemen in the domestic trade of the United States, 1800-1860.* Stud. in Soc. Sci., vol. xxi, no. 3. (Urbana: Univ. of Illinois. 1937. Pp. 81. $1.)

The purpose of this study is to "describe the system of middlemen operating in the domestic trade of the United States from 1800 to 1860." The author regards these years as the final departure from colonial methods of distribution and the foundation of the new system which made an appearance after the Civil War. The study covers seven chapters featuring such topics as the activities of wholesalers both in seaboard and inland markets; the work of factors and brokers; the operation of auction markets; the enterprise of retailers, including such items as general and specialty stores, the beginning of department and chain-store systems, and methods of sales promotion. These were days when markets were relatively small; specialization was impossible except with wholesalers in certain lines who supplied a retail trade near and far. Apparently, competitors on the losing side sought the aid of the law-makers, as they do today, in defense of their cause—usually without much success. This was the case between importers and jobbers and promoters of sales at auction. The study is based upon an analysis of numerous source materials to which the author gives ample references, including an extensive bibliography of material bearing on his subject.

Isaac Lippincott

KINSMAN, D. O. *Our economic world: a study of the world's natural resources and industries.* (New York: Crowell. 1937. Pp. xi, 584. $3.50.)

Apparently, the author intends to lay greater stress on industries than on resources, although something more than a third of the volume is devoted to resources. This section begins with a study of certain geographic conditions—soil, climate, rainfall, exposure, natural means of communication; he proceeds thence to a discussion of plant life—cereals, fruits and vegetables, spices and stimulants, animals and their products, and forest resources. Then, finally, is a rather extensive study of mineral resources. Professor Kinsman keeps close to an actual study of going business conditions in his development of the sections relating to industry. In fact he says that "the text will serve its best purpose only when the reader keeps in close touch with actual business." Thus he urges that the execution of this purpose requires an examination of industrial and commercial activities, preferably by visits to plants and by discussion with business-men. This attitude gives the mid-portion of the book a real touch of manufacturing and commercial operations. Among the industries particularly singled out for discussion are the primary plant-food industries, meat packing, certain textiles, the boot and shoe industry, iron and steel, certain non-ferrous metals, automobiles and aluminum. The latter part of the book is devoted to a study of our transportation systems and various aspects of marketing. The volume differs from others in this field largely through its emphasis on American industries and conditions. Although the book seems to be designed primarily as a text, the interesting style will hold the attention of general readers.

I. LIPPINCOTT

KNIGHT, M. M. *Morocco as a French economic venture: a study of open-door imperialism.* (New York: Appleton-Century. 1937. Pp. x, 244. $2.25.)

KRETSCHMANN, J. G. *Autarchia: economica e finanziaria ed economia mondiale.* (Padua: Milani. 1937. Pp. vi, 145. L. 18.)

LARSON, L. M. *The changing West, and other essays.* (Northfield, Minn.: Norwegian-American Hist. Assoc. 1937. Pp. ix, 180. $2.50.)

LEIGHTON, J. A. *Social philosophies in conflict: fascism and nazism, communism, liberal democracy.* (New York: Appleton-Century. 1937. Pp. xxii, 546. $3.25.)

LINDAHL, E., DAHLGREN, E. and KOCK, K. *National income of Sweden, 1861-1930.* Parts 1 and 2. (Stockholm: Inst. for Social Sciences, Univ. of Stockholm. London: P. S. King. 1937. Pp. xxi, 319; xix, 631.)

LINGELBACH, W. E., editor. *Approaches to American social history.* (New York: Appleton-Century. 1937. Pp. 101. $1.25.)

LÜTGE, F. *Die Agrarverfassung des frühen Mittelalters im mitteldeutschen Raum vornehmlich in der Karolingerzeit.* (Jena: Fischer. 1937. Pp. xx, 370. RM. 16.50.)

MAULDON, F. R. E. and ANDERSON, D. L. *The Tasmanian economy in 1936-37: a survey prepared on behalf of the state finance committee.* (Hobart: Govt. Printer. 1937. Pp. vii, 41.)

MISTLER, J., and others. *Problèmes de politique extérieure.* Conférences organisées par la Société des Anciens Elèves et Elèves de l'Ecole Libre des Sciences Politiques. (Paris: Alcan. 1937. Pp. 223. 18 fr.)

MODLIN, G. M. and DE VYVER, F. T. *Development of economic society.* Vol. I. (Boston: Little Brown. 1937. Pp. x, 474. $1.40.)

This volume is the first in a series of six which together are intended to supply the materials for an introductory course in economics. The authors of

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the series believe that experience shows that students will more easily understand modern economic society, view it more objectively, if its evolution is traced from its simpler forms. This procedure requires certain innovations, it is claimed. As far as this volume is concerned, however, the innovations, if any, appear in the emphasis and choice of material rather than in the content. The point of view is that of the older standard works. The authors seem always to have before them the fact that it is their business to provide background into which modern economic principles and problems are to be set, so they have chosen to emphasize what would seem to contribute most toward an understanding of the principles and problems which are to follow.

The Middle Ages is the starting point. In each of the four parts of the book—medieval economy, economic nationalism, economic revolution, modern economic society—the same arrangement is generally followed. A chapter is devoted to agriculture, another to industry, followed by trade and finance, with transportation added in the modern period. The early part deals only with England. The next chapters begin with a survey of English development and conclude with a discussion of development of the United States, and the last part is devoted almost exclusively to America. Each part of the book has a concluding chapter interpreting each era in the light of the views prevailing at the time. These interpretations—economic ideals of the Middle Ages, mercantilism, economic individualism, and the decline of laissez faire—should prove most helpful to students.

The purpose which the authors had in mind imposed certain limitations but brought advantages as well. The broad survey undertaken made it impossible to include any great amount of detail. It contents itself with explanation and analysis; and the economic analysis is always competent. In a book of this kind it is probably better that the beginning student be not burdened with detail at the expense of analysis. Economic historians will, of course, miss refinements and qualifications, the lack of which may occasionally cause conclusions to prove misleading. But it must be remembered that the book is not intended as a text for the study of economic history. Moreover, with this in mind there will probably be no serious criticism of the paucity of references and the complete absence of a bibliography.

This little book will doubtless prove to be an attractive one for students with which to begin their study of economics. The fact that it can be slipped into a coat pocket as the editor of *Economics and Social Institutions* claims, may add to its usefulness.

H. F. R. Shaw

Mönch, H. *Die Wirtschaftlichkeit der Arbeitslosenhilfe in der Geschichte: eine systematische Studie.* (Jena: Fischer. 1937. Pp. viii, 88. RM. 4.)

Mortara, G. *Prospettive economiche.* 16th ed. *I grandi problemi.* (Milan: Univ. Bocconi. 1937. Pp. xvi, 407. L. 50.)

Papi, G. U. *Prime linee di economia coloniale.* (Padua: Milani. 1937. Pp. 43.)

Parkinson, C. N. *Trade in the eastern seas, 1793-1813.* (Cambridge: Univ. Press. New York: Macmillan. 1937. Pp. xiii, 435. $5.)

Peel, G. *The economic policy of France.* (London: Macmillan. 8s. 6d.)

Prinzing, A. *Wirtschaftslenkung: das australische Beispiel.* (Berlin: Junker und Dünnhaupt. 1937. Pp. xi, 192. RM. 9.)

Looking for various methods of governmental interference, German national-

socialist authors have made a serial study of foreign experiments in this field. Prinzing in his doctoral thesis makes such a study for Australia, and investigates the Australian policy with reference to wages, foreign trade, public debt and currency. The wages are strictly supervised: a minimum wage is guaranteed, piece-work wages are eliminated and social security benefits (maternity and unemployment bonuses and old-age pensions) are introduced. These comparatively high standards necessitated protective tariffs and other measures of economic policy. Except for some political and racial remarks, the book is mostly descriptive and to a great extent based on the works of the leading Australian economist, Professor Copland, whom Prinzing calls "the genial strategist in fighting the crisis." A detailed bibliography is annexed.

P. HAENSEL

ROSENTHAL, S. *Impressions recueillies dans quelques-uns des pays de l'Amérique Latine au point de vue commercial, industriel et financier.* (Brussels: Rev. Bibliographique de Droit. 1937. Pp. 158. 15 fr.)

RUGG, H. O. *The conquest of America: a history of American civilization, economic and social.* (Boston: Ginn. 1937. Pp. xii, 563.)

Third volume of the junior high school course.

SANTILLAN, D. A. DE. *After the revolution: economic reconstruction in Spain today.* Translated from the Spanish by LOUIS FRANK. (New York: Greenberg. 1937. Pp. 127. $1.25.)

SCHMIDT, C. T. *The plough and the sword: labor, land, and property in fascist Italy.* (New York: Columbia Univ. Press. 1938. Pp. vii, 197. $2.50.)

SIMONDS, F. H. and EMENY, B. *The great powers in world politics: international relations and economic nationalism.* Rev. ed. (New York: American Book. 1937. Pp. 832. $4.)

SMITH, A. E. *James Madison, builder: a new estimate of a memorable career.* (New York: Wilson-Erickson. 1937. Pp. vii, 366. $4.)

DE STURLER, J. *Les relations politiques et les échanges commerciaux entre le Duche de Brabant et l'Angleterre au Moyen Age: l'étape des laines anglaises en Brabant et les origines du développement du Port d'Anvers.* (Paris: Droz. 1936. Pp. 543.)

In lucid fashion this scrupulously documented study traces the history of trade between England and Brabant from the first indisputable evidence of its existence (first quarter of the twelfth century) to the middle of the fourteenth century. In order to delineate the history of this misunderstood yet important branch of commerce, (which accounted for 10 per cent of England's wool exports as early as 1275) de Sturler has found it necessary to deal minutely with Anglo-Brabançon political relations. His patient research has been abundantly rewarded; not only has he been able to describe precisely the character, extent, composition, legal foundations, and organization of Anglo-Brabançon trade, but he has also enlarged and enriched the history of the British wool staple. All scholars may not accept the designation of Dortrecht as a "preferential staple" in 1294 as strict proof of the existence of an English foreign wool staple before 1313; they cannot cavil, however, with de Sturler's clear exposition of the early history of British wool-marketing facilities. Because of political and fiscal reasons, Brabant shared early in market quasi-monopolies (Malines and Antwerp), and later Antwerp enjoyed the temporary monopoly of the compulsory staple. Meantime a host of economic and political con-

siderations prompted English experiments with a "home staple"; and de Sturler has tried valiantly to disentangle this snarled historical skein. Fiscal problems were apparently uppermost in dictating the reëstablishment of a foreign staple at Antwerp in 1338, although political events soon conspired to transfer this valuable privilege from Brabant to Flanders.

This newest work by de Sturler increases still further our debt to the Belgian scholars for the very reason that the economic history of the Low Countries is so intimately related to that of England, France, Germany, to say nothing of the Hanse towns or Lombardy.

E. A. J. Johnson

Thompson, V. *French Indo-China.* (New York: Macmillan. 1937. Pp. 517. $5.)

Chapter 3 (pp. 109-235) deals with the economy of Indo-China, including natural resources, labor, commerce, budgets, public works, capital and credit, and the land regime. The study is based on original and documentary material, for the most part French. Sources are indicated in a 10-page bibliography.

Tilden, A. *The legislation of the Civil-War period considered as a basis of the agricultural revolution in the United States.* Univ. of So. California, stud. no. 15. (Los Angeles: Univ. of Southern California Press. 1937. Pp. 160. $2.)

Van Cleef, E. *This business world: an economic and commercial geography.* (Boston: Allyn and Bacon. 1937. Pp. 426. $1.70.)

del Vecchio, G., and others. *Dieci anni di economia fascista: 1926-1935.* Annali di Economia, vol. xii. (Padua: A. Milani. 1937. Pp. 577.)

The period of ten years here under examination begins with the law that preceded the carta del lavoro and runs to the first year of imperial policy. The fourteen essays by as many able economists, touch upon many developments; that by Vinci contrasts the position of the worker under English procedure (after dominance of the Ricardian theory) with his position under the carta; that by Fasiani on the causation and relief of crises indicates how a fascist government will deal more adequately with its problem than a liberal government can. Masci has an important paper on agricultural policy; Tajani, one on transportation; Mazzei, a particularly extensive paper on tariff developments. In aim the essays are historical, expository, defensive of the fascist accomplishment.

R. F. F.

Wirth, F. P. *The discovery and exploitation of the Minnesota iron lands.* (Cedar Rapids, Iowa: Torch Press. Pp. 247. $2.50.)

Work, M. N., editor. *Negro year book: an annual encyclopedia of the negro, 1937-1938.* 9th ed. (Tuskegee Inst., Ala.: Negro Year Book Pub. Co. 1937. Pp. xiv, 575.)

Economic preparedness in China and Japan. Reprinted from *Far Eastern Survey,* vi, 21, Oct. 20, 1937. (New York: Am. Council, Inst. of Pacific Relations. 1937. Pp. 32. 15c.)

Etude comparée du capitalisme et du bolchevisme: la stabilisation monétaire—est-elle souhaitable, est-elle possible? Travaux du Congrès des Economistes de Langue Française, 1937. (Paris: Domat-Montchrestien. 1937. Pp. 174. 48 fr.)

Poland: concise statistical year-book of Poland, 1937. 8th year. (Warsaw: Chief Bur. of Statistics. 1937. Pp. xxiv, 354.)

Quebec: statistical year book, 1936. 23rd year. (Quebec: H. M. Stationery Office. 1937. Pp. xxxiii, 450.)

República Argentina: anuario estadistico, ano 1936. (La Plata: Direccion General de Estadistica de la Provincia de Buenos Aires. 1937. Pp. 224.)

Statistical abstract for the British Empire for each of the ten years 1927 to 1936 (trade and commerce section). 66th no. (London: H. M. Stationery Office. 1937. Pp. xv, 229. $1.10.)

Statistisches Handbuch der Weltwirtschaft. (Berlin: Statistisches Reichsamt. 1937. Pp. 186, xiv. RM. 6.80.)

Statistisches Jahrbuch deutscher Gemeinden: amtliche Veröffentlichung des deutschen Gemeindetages. 32. Jhrg., Lieferung 2. (Jena: Fischer. 1937. RM. 25.)

World economic review, 1936. Part 2. *Foreign countries.* (Washington: Bur. of Foreign and Domestic Commerce. 1937. Pp. 275. 30c.)

Agriculture, Mining, Forestry, and Fisheries

The Dairy Industry in Canada. Edited by H. A. Innis, with sections contributed by J. A. Ruddick, W. M. Drummond, R. E. English and J. E. Lattimer. (New Haven: Yale Univ. Press. 1937. Pp. xxxii, 299. $3.75.)

The volume is one of a series of studies on *The Relations of Canada and The United States* prepared under the direction of the Carnegie Endowment for International Peace. Professor Innis' own contribution to the volume consists of the introduction, a brief chapter on the historical background of the dairy industry, and a concluding chapter on American tariff policy. Born and brought up on a farm in one of the finest dairy counties in the province of Ontario, he has had that touch of practical experience which saves the mere economist from the pitfalls set by long application to theory. His review of the history of dairying in Canada in its relation to geographical conditions, tariff policies and the more recent devices for control of prices is both comprehensive and penetrating. He points out how the United States, "having powerfully contributed to the expansion of the dairy industry" in Canada, has used the tariff to prohibit entry of dairy products to her markets, and deprecates the "vicious effect" of the "cost of production concept" which, borrowed by farmers from manufacturers, has been used as a lever to disturb the price structure. "The significance of the reciprocity treaty of 1935," he concludes, "it may be hoped, lies in its position not only in the secular trend in the decline of the rate of expansion and the increasing importance of the United States in Canadian economic development, but also in a short-run cyclical trend which marks the end of rigid principles in the American tariff structure imposing heavy penalties on Canada."

The contribution of Mr. Ruddick on the development of the industry, running to over a hundred pages, while informative and on the whole interesting, would have been improved by the exclusion of many lists of names and certain detail as to the careers of individuals. Such personal

descriptions, however, as that given by Sir Joseph Flavelle of his experiences with the butter business in 1870 are particularly worth recording.

Professor Drummond's somewhat briefer section on the problems of the industry, while closely reasoned, is easily followed and on the whole convincing. One could have wished that he had not printed the misleading statistics giving the loosely estimated yield in pounds of milk of Canadian cows. The discussion of "price-supporting programs" as contrasted with "long-run policies" is particularly valuable. It is to be regretted that Professor Drummond had not permitted himself to examine what might have been the result had Canada sought to maintain the virtual balance between imports and exports which existed in 1930.

Mr. English's four chapters on the Fraser Valley hardly give as clearly accentuated a picture as could be desired of the failure of control to serve the interests of the farmer in that isolated area.

Statistical appendices and a useful index add to the value of a sound and comprehensive study.

C. B. Sissons

Recent Trends in Rural Planning. By William E. Cole and Hugh Price Crowe. (New York: Prentice-Hall. 1937. Pp. xv, 579. $3.50.)

Because it brings together from a wide range of sources the best materials now available, this book is a valuable contribution to the field of planning. The rural point of view dominates throughout, though the interlocking relationship with urban planning is not overlooked. And "planning," to the authors, means the use of the "best accepted thought and scientific practice, to the end that the majority of individuals in the area may have opportunities for developing their talents to the greatest possible degree, plus the opportunity for exchanging these developed talents for suitable and satisfying returns. . . ." The sociological aspects are emphasized.

The authors have attempted, and quite successfully, to assemble and coordinate existing materials rather than bring to light new facts. One statement from the preface indicates the purpose and scope excellently as "a compilation of various attempts which have been made to attack, systematically, certain rural problems and to plan for a rural life designed to achieve individual adequacy, on the one hand, and social effectiveness on the other." While designed, or better still, adapted for use as a handbook for professional planners, the book contains much subject matter that usually finds its way into texts on rural sociology.

The contents may be grouped conveniently into three general divisions. Chapters 1-3 present the underlying principles in rural planning, terminology, physical and human resources, and population characteristics, and their interrelation as the basis for social action. Chapters 4-6 treat the

land question by giving first a résumé of recent trends in land-use planning with the emphasis dominantly favoring some form of rural zoning as the basis for providing human security. The land settlement policies of European countries are offered as possible ways of bringing about a better adjustment between the land and the people. The balance of the book takes up chronologically, with emphasis on the rural aspect, such pertinent topics as social welfare, juvenile delinquency, crime control and administration, health, education, library, recreation, church, government, and electrification. One additional topic might well have been added if planning is to mean something quite real. That is the provision of revenue or rural finance. It seems conspicuously lacking because so much of the current planning lacks proper execution for want of funds. Perhaps, planning along this line is too vaguely worked out at present to warrant inclusion along with the more tangible topics suggested. Certainly the authors would hardly exclude such a phase from the broad field of rural planning.

One finds the names of most of the recognized leaders in rural social life among those cited by the authors as they bring together systematically the choice statements from existing materials. Also quite varied statistical sources have been drawn on. The contributions of the authors are limited largely to introductory exposition, arrangement of subject matter, and brief conclusions, rather than the assembling and analysis of original data. The method of presentation gives sharp differentiation between general discussion, the meaty verbatim excerpts, and the clear-cut point-by-point steps involved in the presentation of each problem or the suggested methods of attack. The selected bibliography that closes each chapter will be found helpful as reference material. That part of the book alone adds greatly to its usefulness.

Although the authors favor strongly the institutional approach as a necessary attribute to any accomplishments in rural planning, they do advance with caution at many points by warning the readers that changes can be made only as rapidly as society can absorb them without creating greater maladjustment. Such a safeguard should be a part of any planning program lest desirable natural changes be checked by rigid, outgrown plans for social control.

R. J. Saville

Louisiana State University

Agricultural Organization in New Zealand. By H. Belshaw and Others. (Melbourne: Melbourne Univ. Press. 1936. Pp. 818. 21s.)

According to the director of the survey, Professor H. Belshaw, dean of the faculty of commerce, Auckland University College, this book is unique for two reasons. It represents the first comprehensive survey of agricultural

organization and land utilization in New Zealand; and it has brought together a larger number of specialists than have ever before coöperated in one investigation in that country.

The Research Committee of the Institute of Pacific Relations authorized a study of New Zealand agriculture in 1929. The work was started in 1931, but progress was interrupted because many of the contributors were required to assume special duties and responsibilities arising out of the depression.

The book is a veritable encyclopaedia on New Zealand agriculture with no less than 24 separate contributors prominent in all phases of agriculture. Part 1 (4 chapters) presents a short history and general survey of New Zealand agriculture. Part 2 (13 chapters) analyzes the geographic, climatic and institutional factors influencing land utilization. Part 3 (10 chapters) describes in considerable detail the organization of various forms of farming, including sheep raising, dairying, cattle raising, fruit and market gardening, and forestry. Part 4 (9 chapters) is devoted to a description and analysis of developments in the processing and marketing of farm products. Many chapters in the book are devoted to aspects of agriculture not strictly within the purview of economists, for example, chapters on soils, climate, pastures, and fertilizers. However, clear and concise chapter headings and subheadings assist the reader who may be interested only in certain phases of New Zealand agriculture. Liberal use is made of tables for the presentation of quantitative information.

While the book teems with interesting information, four features of New Zealand agriculture appear to be of special significance. The first is the importance of agriculture in New Zealand economy. During recent years agriculture and forestry have accounted for approximately 60 per cent of the total value of all production and about 94 per cent of the value of all exports (pp. 36 and 37). The dairy and sheep industries alone account for about 88 per cent of all exports (p. 609). About 87 per cent of the production of the sheep industry (wool, mutton, and lamb) and 83 per cent of the production of the dairy industry (butter and cheese) are exported. The great bulk of these exports goes to the United Kingdom. This dependence of the two main industries upon a single foreign market is a source of economic weakness. Although it does not appear feasible for New Zealand to restrict production, a wider market outlet would tend to lessen somewhat the impact of extreme price fluctuations (p. 41).

Second, the successive administrations have followed a policy aimed at the closer settlement of land on a family-size farm basis. Limits are placed on the maximum size of Crown lands, which can be leased or purchased by an individual (p. 31); liberal financing for the purchase and improvement of land is provided by the state; the land transfer system has been

greatly simplified (pp. 183-84); taxation has been directed (apparently with only minor success) to breaking up large estates (p. 215).

Third, the characteristics of agriculture have undergone a marked change during the past half-century. Production of cereals (wheat and oats) has decreased in importance, whereas production of sheep and especially of dairy cows has increased severalfold. The expansion of livestock production has been aided by an equable climate, improved breeds, cultivation and seeding of pastures, and refrigeration.

The fourth significant feature is that New Zealand has had a relatively long and comparatively successful experience in marketing control. There are control boards for meat, dairy products, fruit, honey, and poultry, all established during the years 1922 to 1924 (pp. 767-70). The dependence of New Zealand upon a few major products together with its isolated position makes the marketing problem one of special importance. The haphazard methods of proprietary concerns were inadequate to cope with the situation even before the World War; the inadequacy of these methods became more apparent after the war. The control boards were established to regulate exports, ocean transportation and sales in the United Kingdom and to establish uniform grades and standards.

In spite of the fact that the book consists of articles contributed by different authors, careful editing has succeeded in maintaining continuity and in reducing repetition to a minimum. It is likely to remain for many years the most comprehensive treatise on New Zealand agriculture.

J. M. Tinley

University of California

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COLVIN, E. M., compiler. *List of periodicals containing prices and other statistical and economic information on dairy products.* Agric. econ. bibliog. no. 71. (Washington: U. S. Dept. of Agric. 1937. Pp. 114.)

CONI, E. A. *First exhibition of the National Grain and Elevator Commission, held in Buenos Aires, July 21-August 4, 1937.* Address delivered by the president of the Commission. (Buenos Aires: Nat. Grain and Elevator Commission. 1937. Pp. 22.)

COX, J. F. and JACSON, L. E. *Crop management and soil conservation.* (New York: Wiley. 1937. Pp. 610. $2.75.)

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EDWARDS, E. E. *References on agricultural history as a field for research.* Bibliog. contrib. no. 32. (Washington: U. S. Dept. of Agric. Library. 1937. Pp. 41.)

EMMONS, W. H. *Gold deposits of the world, with a section on prospecting.* (New York: McGraw-Hill. 1937. Pp. 569. $6.)

EVANS, F. and STOKDYK, E. A. *The law of agricultural co-operative marketing.* (Rochester: Lawyers Co-op. Pub. Co. 1937. Pp. xxxii, 648.)

FINCKENSTEIN, H. W. *130 Jahre Strukturwandel und Krisen der intensiven europäischen Landwirtschaft.* (Berlin: Weidmannsche Verlagsbuchhandlung. 1937. Pp. 45.)

HAMILL, W. S. *The forest resources and industries of Maryland.* (Baltimore: Maryland Development Bur. of the Baltimore Assoc. of Commerce. 1937. Pp. 197.)

KINSMAN, D. O. *Our economic world: a study of the world's natural resources and industries.* (New York: Crowell. 1937. Pp. xi, 584.)

KRAEMER, E. *Tenure of new agricultural holdings in several European countries.* Soc. res. rep. no. 2. (Washington: Farm Security Admin. and Bur. of Agric. Econ. 1937. Pp. 92.)

LEZARD, A. *The great gold reef: the romantic history of the Rand gold-fields.* (Indianapolis: Bobbs-Merrill. 1937. Pp. xiv, 313.)

MCDOUGAL, A. R. *The real cause of agricultural distress.* (Galashiels, Scotland: Walker. 1937. Pp. 39.)

MALOTT, D. W. *Problems in agricultural marketing.* (New York: McGraw-Hill. 1938. Pp. xiii, 410. $3.)

MARTIN, R. F. *International raw commodity price control.* (New York: Nat. Industrial Conf. Board. 1937. Pp. 166. $3.50.)

van der Post, A. P. *Economics of agriculture.* (Johannesburg: Central News Agency. London: Gordon and Gotch. 1937. Pp. xxvii, 663. 25s.)

The author is assistant chief of the Division of Economics and Markets in the Department of Agriculture and Forestry, Pretoria, Union of South Africa, and he has studied extensively in the United States. He lists more than two hundred publications from various countries which he consulted and from which he quotes freely. "The object of this book is primarily to give the farmer some insight into the economist's thoughts and to explain to him the bearing of the teaching of economic science upon his industry." Although the book is mainly directed to economic aspects of agriculture of the Union of South Africa, it considers conditions in many other countries.

In a foreword Deneys Reitz, Minister of Agriculture and Forestry, says: "The reader will find the book scholarly, stimulating to thought and provocative, three welcome attributes, which must enhance the general understanding of our rural problems." This statement is fully justified. The book offers not only a practical guide to many aspects of farming but also stresses basic economic principles. The approach is purely economic and deals with aspects of rural welfare.

The volume begins with a general survey of agricultural development. South Africa was mainly concerned with extensive farming until the discovery of diamonds and gold some twenty years ago. These discoveries attracted immigrants and capital which tended to bring about railroads, markets and prosperity to the people. The factors of production in relation to agriculture are treated at considerable length, concluding that "in South Africa, with its sparse population and consequently poor domestic markets, the object of agricultural policy generally, and of land settlement policy in particular, should be to preserve, or create, conditions under which the farmer and settler can practice a comparatively extensive system of agriculture." With suitable men on holdings of suitable size, and with adequate capital "there need be little fear of their not making good." The trek to town, principles to be observed in land settlement, and irrigated farming are considered. Small holdings are promising in but few places in South Africa. A chapter is devoted to farm relief; this must be sought in removal, or reductions, of barriers to international trade, and an early return to "stable" monetary conditions.

A. J. Dadisman

Roush, G. A., editor. *Mineral industry.* Vol. 45. *1936: its statistics, technology and trade.* (New York: McGraw-Hill. 1937. Pp. 771. $12.)

Ruede, H. *Sod-house days: letters from a Kansas homesteader, 1877-78.* (New York: Columbia Univ. Press. 1937. Pp. 248.)

Sayre, F. B. *Agriculture and the trade-agreements program.* Address before Wisconsin Farmers' Union, Madison, Wisconsin, Nov. 3, 1937. Commercial policy ser. no. 41. (Washington: State Dept. 1937. Pp. 10. 5c.)

Shollenberger, J. H. *Industrial qualities of Argentine wheat compared with Canadian and United States wheats.* (Buenos Aires: Nat. Grain and Elevator Commission. 1937. Pp. 8.)

Stewart, M. S. *Saving our soil.* Public affairs pamph. no. 14. (New York: Public Affairs Committee. 1937. Pp. 31. 10c.)

Street, A. G. *Farming England.* (New York: Scribner. 1937. Pp. 128. $3.)

Tobey, J. A. *Federal and state control of milk prices.* (Chicago: Internat. Assoc. of Milk Dealers. 1937. Pp. iv, 42.)

VANCE, R. B. *Farmers without land.* Public affairs pamph. no. 12. (New York: Public Affairs Committee. 1937. Pp. 31. 10c.)

Agricultural statistics, 1937. (Washington: Supt. Docs. 1937. Pp. 486. 50c.)

Bibliography of reports by state and regional planning organizations. No. 4. (Washington: Nat. Resources Committee. 1937. Pp. 10.)

The census of agriculture. Report prepared under the direction of a committee established jointly by the Advisory Committee on Social and Economic Research in Agriculture and the American Farm Economic Association. Bull. 40. (New York: Social Science Research Council. 1937. Pp. xiii, 76.)

Census of agriculture, 1935. (Washington: Supt. Docs. 1937. Pp. 486. 50c.)

Cotton production and distribution, season of 1936-37. Bull. 174. (Washington: Census Bureau. 1937. Pp. 54. 10c.)

The farm outlook for 1938. Misc. pub. 298. (Washington: U. S. Dept. of Agric. 1937. Pp. 43. 10c.)

First annual report on tobacco statistics (with basic data). Stat. bull. no. 58. (Washington: U. S. Dept. of Agric. 1937. Pp. 148. 15c.)

Mineral raw materials: survey of commerce and sources in major industrial countries. (New York: McGraw-Hill. 1937. Pp. 360. $5.)

Modificacion de las bases estatutarias para trigo. 3 y 4 reunion gremial, Julio 20 y 21 de 1937. Pub. no. 15. (Buenos Aires: Comision Nac. de Granos y Elevadores. 1937. Pp. 39.)

Operaciones a término sobre granos. Traducción del Informe de la Comisión Investigadora sobre Operaciones de Granos a Término, Canada, 1931. Pub. no. 14. (Buenos Aires: Comision Nac. de Granos y Elevadores. 1937. Pp. 93.)

Rules and regulations of the Secretary of Agriculture under the Commodity Exchange act, articles I and II issued August, 1937. (Washington: U. S. Dept. of Agric. Commodity Exchange Admin. 1937. Pp. 55. 10c.)

Statistics relative to the dairy industry in New York State, 1935-1936. Bull. 313. (Albany: N. Y. Dept. of Agric. and Markets. 1937. Pp. 255.)

United States census of agriculture, 1935: part-time farming in the United States. (Washington: Census Bur. 1937. Pp. 205. 50c.)

Wheat studies. Vol. xiv, no. 2. *Price effects of Canadian wheat marketing,* by HOLBROOK WORKING. No. 3. *Trends of yield in major wheat regions since 1885.* Part 1. *General considerations and rising trends,* by M. K. BENNETT. No. 4. *The world wheat situation, 1936-1937: a review of the crop year,* by J. S. DAVIS. (Stanford University, Calif.: Food Research Inst. 1937. Pp. 37-68; 69-102; 103-182. $1; 75c; $1.25.)

Yearbook of agriculture, 1937. (Washington: Supt. Docs. 1937. Pp. 1497. $2.)

Manufacturing Industries

Market Control in the Aluminum Industry. By DONALD H. WALLACE. Harvard econ. stud. 58. (Cambridge: Harvard Univ. Press. 1937. Pp. xxix, 599. $5.00.)

For the purposes of economic science as such, there is something to be said for the existence of one monopoly, untouchable by the anti-trust laws, as a form of laboratory experiment. To a certain extent, the aluminum industry fulfills this function, though to fulfill it properly, it should publish

more adequate information about itself than it has done hitherto. Dr. Wallace has done a great deal with the inadequate materials available, not only in a descriptive way, but integrating this with theoretical analysis of the sort employed by Professor Chamberlin. The study was awarded the David A. Wells prize for 1933-34, and maintains the high standards one expects of this series.

The book is divided into four parts: historical development, nature of market control of the basic product, consequences of various kinds of market control, and relations between monopoly of the basic product and competitors at later stages. It covers not only the American experience but that of Europe with cartels, and international relationships. There are six appendices.

Based originally on patents running for a combined term of twenty years, the American monopoly of ingot production appears to have maintained itself largely through the formidable difficulties facing a new enterprise attempting to match the varied advantages of the existing company. It is characteristic of the book that the author is cautious as to whether the company's bauxite ore holdings amount to virtual monopoly, while his detailed story impresses the reader with the well-nigh insuperable obstacles, on that score, faced by a potential competitor. Monopoly position seems to be tempered largely by the wisdom of stimulating rapid growth of demand, which probably still has large undeveloped potentialities.

A considerable degree of integration is economical, but, under present conditions, efficiency is probably consistent with the existence of several large ingot producers. As to unfair competition with non-integrated fabricators, the more extreme apprehensions are discounted. The company has made large earnings (difficult estimating being necessary) and has limited productive capacity to a point at which customers sometimes have to wait many months for deliveries.

Professor Wallace uses his theoretical analysis in comparing the effects of various alternative policies, some of them deliberately fanciful. These include purchasers' coöperation, the introduction of oligopoly where monopoly now exists, public regulation *via* investment or price, public competition with private enterprise, and public monopoly of ingot production. On economic grounds alone, he leans toward public competition, assuming an ideal "yardstick" policy which, on political and psychological grounds, taxes the reviewer's optimism. In dealing with public regulation, he suggests return on investment and marginal cost as alternative standards, leaning toward the latter, but not developing all its implications. He recognizes the difference between short-run and long-run marginal costs, but does not show definitely how the proposed regulatory policy would deal with the resulting problems.

Space does not permit critical discussion of various interesting questions of theoretical tools and methods. There appear to be problems of oligopoly requiring something different from (or additional to) the techniques characteristic of Chamberlin's analysis.

J. M. CLARK

Columbia University

NEW BOOKS

EATON, A. H. *Handicrafts of the southern highlands: with an account of the rural handicraft movement in the United States and suggestions for the wider use of handicrafts in adult education and in recreation.* (New York: Russell Sage Found. 1937. Pp. 370.)

EOYANG, T. *An economic study of the radio industry in the United States of America.* A thesis. (New York: RCA Inst. Technical Press. 1937. Pp. 218.)

LEZIUS, W. G. *The glass industry in Toledo and its environs.* Bull. 9. (Toledo: Univ. of Toledo Bur. of Bus. Res. 1937. Pp. 16.)

ROSENBLOOM, M. *The liquor industry: a survey of its history, manufacture, problems of control and importance.* 1937 ed. (Braddock, Pa.: Ruffsdale Distilling Co. 1936. Pp. 105.)

SUNDBLAD, F. W. *The American steel industry, at the cross-roads of progress and reaction.* (Philadelphia: Dorrance. 1937. Pp. 106. $1.50.)

American beer and ale: a handbook of facts and figures. (New York: United Brewers Ind. Found. 1937. Pp. 32. Gratis.)

A chronicle of the automotive industry in America. Prepared for private circulation by Eaton Manuf. Co., in celebration of its silver anniversary. (Cleveland: Eaton Manuf. Co. 1936. Pp. 61.)

Confectionery production and distribution, 1936. Dom. commerce ser. 97. (Washington: Bur. of Foreign and Domestic Commerce. 1937. Pp. 39. 10c.)

Lancashire and the future: the present position and prospects of the cotton industry. (Manchester: Joint Committee of Cotton Trade Organizations. 1937. Pp. 28.)

Motor truck facts. 1937 ed. (New York: Automobile Manuf. Assoc. 1937. Pp. 48.)

Transportation and Communication

NEW BOOKS

BAKER, G. P. *The formation of the New England railroad systems: a study of of railroad combination in the nineteenth century.* (Cambridge: Harvard Univ. Press. 1937. Pp. xxxi, 283. $3.50.)

BUSSING, I. *Railroad debt reduction: outline of a plan for the gradual reduction of railroad debt, tested by application to the financial history of three bankrupt railroads.* (New York: Savings Bank Trust Co. 1937. Pp. ix, 53. $5.)

This condensed study by the economist of the Savings Bank Trust Company of New York proposes the application of railroad receipts to debt reduction according to a formula based upon the ratio of bonds to stock outstanding, the amount of interest and dividends paid, and an empirically selected multiplier. The formula is intended to cause retirements to be large either when a railroad has a great proportion of its capital in the form of bonds—that is, when there is need for relief; or when earnings are large, and a capacity for relief exists. The effect of the multiplier is to diminish the annual charge for

debt retirement to an amount that will not reduce the rate of a railroad's dividends by more than one per cent of the par value of outstanding stock.

Obviously the use of the multiplier is a concession to practical necessities. The use of the fraction bonds/stock has the more fundamental disadvantage that it reduces the rate of retirement for railroads which have sold stock at a discount or have exchanged it for overvalued property or services. On the other hand if a ratio of bonds to property valuation be used, or if the financial policy of different railroads be allowed for separately, the formula ceases to be simple or easy of application. The brochure is an interesting proposal for the solution of a problem of considerable importance.

STUART DAGGETT

DELANNEY, L. *Highway administration and finance in fifteen countries.* Brochure no. 94. (Paris. Internat. Chamber of Commerce. 1937. Pp. 168. 20 fr.)

MIDDLETON, P. H. *Railways of thirty nations: government versus private ownership.* (New York: Prentice-Hall. 1937. Pp. 347. $3.)

MUNDY, F. W., editor. *Mundy's earning power of railroads, 1937.* 32nd issue. (New York: Jas. H. Oliphant. 1937. Pp. 793. $4.)

SHARFMAN, I. L. *The Interstate Commerce Commission: a study in administrative law and procedure.* Part 4. (New York: Commonwealth Fund. 1937. Pp. xii, 550. $4.50.)

SMITH, E. D. *Air mail transport.* (New York: Author, 270 Convent Ave. 1937. Pp. 44. $10.)

It is difficult to evaluate completely the merit of this monograph because of its anomalous character. The preface states that it is concerned with the understanding of some of the problems of the aeronautical *industry.* The introductory chapter claims seven contributions, only one of which has a decided relationship to the treatise title, and the conclusion contains 17 recommendations, only 3 of which (nos. 4, 8, and 13) appear to relate directly to air mail transportation. The remaining recommendations seem to be pertinent to general policy matters relating to air mail indirectly or to other phases of aeronautics as much as or more than to the carriage of air mail.

There is in the nine chapters an excellent use of the primary source materials but no reference to secondary sources. Inasmuch as, for instance, David's *Economics of Air Mail Transportation,* covers the period up until 1934 in more detail and uses in general the same source material, lack of reference to it is a significant omission.

Conclusions and recommendations are acceptable or not, depending upon the reader's economic and political philosophy. For those who believe in enlarged governmental powers over the industry and the placing of this comparatively new form of transportation more completely under the jurisdiction of the I.C.C., Dr. Smith's recommendations are acceptable and his conclusions logical, though not entirely new.

LESLIE A. BRYAN

SORRELL, L. C., *Government ownership and operation of railways for the United States.* (New York: Prentice-Hall. 1937. Pp. 343. $3.)

Interstate Commerce Commission: 51st annual report. (Washington: Supt. Docs. 1937. Pp. 177. 55c.)

Merchant marine policy as set forth in the Maritime Commission Report. (Washington: Chamber of Commerce of the U.S. 1937. Pp. 12.)

The need for increased railroad revenues: prosperous railroads are essential to a prosperous nation. (Washington: Assoc. of American Railroads. 1937. Pp. 15.)

Railway literature for young people: a bibliography. (Washington: Assoc. of American Railroads. 1937. Pp. 24.)

A yearbook of railroad information. 1937 ed. (New York: Committee on Pub. Rel. of the Eastern Railroads. 1937. Pp. 96.)

Trade, Commerce, and Commercial Crises

Banking and the Business Cycle: A Study of the Great Depression in the United States. By C. A. PHILLIPS, T. F. MCMANUS and R. W. NELSON. (New York: Macmillan. 1937. Pp. xiv, 274. $2.50.)

This volume offers a general theory of the causes of business cycles, and a discussion of the financial history of the United States since 1913, which is interpreted as an illustration and inductive confirmation of the theory. The theory is described by the authors as an "eclectic" system; an attempt to reconcile the views of the purely monetary theorists (typified by Hawtrey), the theory of structural dislocation (the modern Austrian school), and the "equilibrium" view. In brief, the theses are: (a) that the origin of the cycle is to be explained by the elasticity of bank credit, particularly the inflationary character of central banking; (b) that a boom cannot go on indefinitely because it leads to an over-development of the capital structure in comparison with the production of consumption goods, and (c) that depressions are intensified and prolonged because of frictions in the readjustment process—chiefly because wages do not come down with prices. On the first two points the theory is substantially that of Hayek; on the third it is simply the classical doctrine that the existence of an unsold surplus of goods or services shows the asking price to be too high.

The purely theoretical sections of the book are somewhat sketchy, making no pretense of definitive rebuttal of objections that are currently advanced against similar theories. For instance, in connection with the price-wage disequilibrium no reference is made to the diametrically opposite position of Keynes and Joan Robinson. Moreover, there is a fatal flaw in the series of hypothetical cases by which the authors seek to demonstrate the dependence of employment on the money wage level (pp. 226-28). In Cases I and III it is assumed that the entire income of the community is spent in the purchase of the output of its industries, while in Case II it is assumed that with 56 million dollars disbursed by industry only 36.75 million dollars reappear as market demand for the output. To divorce the price at which output can be sold from the income of the factors of production might be legitimate with reference to the wage policy of a single small firm which could adjust its wage scale independently of that of the rest of the community, but cannot be done for a whole closed economy.

The chief interest of the book is in its attempt to use the history of 1913-35 as a buttress for the Austrian theory of the effect of credit expansion on the level of business activity. It is held that after the establishment of the federal reserve system the credit structure of the United States was subjected to a continuous dose of inflation, due primarily to federal reserve policy, reënforced by the growth of central banking in Europe and by many other factors—such as permission to member banks to pay interest on deposits; the concentration of gold in central banks; the spread of the gold exchange standard; and the shift of banking practice toward investments and security loans. The extent of the inflation was masked, after 1921, by the fact that in the absence of these forces prices would have had a downward trend because of expansion of output. Thus stabilization of prices (which is asserted to have been the primary standard of federal reserve policy) involved disguised inflation.

These views are familiar, and the general conclusion that investment got an artificial stimulus from bank credit expansion during the twenties is hardly disputable. Few students, however, have stated this conclusion in such an extreme form as it is presented in this book. I believe that the authors greatly overstate both the effects of the bank credit expansion and the extent to which that expansion was due to sins of commission on the part of reserve system authorities. (Sins of omission on the part of central bankers can hardly be held to have been due to the introduction of central banking.)

Among the more important reasons for this general criticism are the following:

(a) The discussion implies that the policy of the federal reserve system in the post-war decade was continuously favorable to bank-credit expansion. Periods in which policy was exerted in the other direction are practically ignored. But the only years between 1919 and 1930 in which the reserve system was directed positively toward expansion, through increasing security holdings or lowering rediscount rates, were 1924 and 1927. The fact is that there was only a 2 per cent net increase of reserve bank credit between January, 1922, and January, 1930, substantial increases in some years being offset by decreases in others. And the greatest increase occurred in 1928, a year in which open-market security holdings were reduced sharply and rediscount rates increased.

(b) Most of the increase of member bank reserves after 1922 was due to the increase of the gold stock. It was due to central banking policy only in the negative sense that the reserve system did not neutralize it by contracting credit. Surely a failure to prevent credit expansion on the basis of gold imports (which under the old national banking system would have gone directly into reserves) does not prove that central banking is inherently a force making for inflation. (Incidentally, the authors never

touch the question of the size of gold imports if credit had been kept in narrower bounds.)

(c) In discussing the expansion of bank deposits, time deposits are tacitly assumed to be fully equivalent to demand deposits in their influence on prices and business activity. The fact that interest was paid on time deposits is treated as a purely inflationary factor because it led to an increase in the volume of deposits, without any consideration of the effect of interest payments on rate of turnover. This is an extraordinarily drastic application of the primitive quantity theory considering that the velocity of the time deposits was probably not one twenty-fifth that of demand deposits.

(d) On pages 83-84 the extent of inflation of bank credit is measured by comparing total net demand plus time deposits of member banks with the gold reserves of the reserve banks, not with the monetary gold stock. This overlooks the fact that during this period there was a deliberate policy of putting gold into circulation as gold certificates so as to keep reserve ratios down and soften the pressure toward credit expansion. In the light of this policy the movement of the gold reserves was of no particular significance.

(e) On pages 178-81 the authors argue that in 1922-29 price stabilization was a principal objective and an actual achievement of reserve-system policy. The evidence consists of selected opinions of outside critics, a few grudging concessions made by federal reserve authorities under pressure from advocates of price stabilization, and "the very existence of a stable price level which existed as long as it did." There is no analysis of the sequence of actual price movements and federal reserve action, nor of the evidence for alternative theories. In fact, however, prices were less stable in 1922-29 than in the pre-war period (see *Recent Economic Changes*, p. 896), and the *Tenth Annual Report* (cited by the authors) is in fact a systematic defense of a policy aiming at stabilization of employment and productive activity, not of prices.

The following minor defects of the book are perhaps worth noting:

(a) The connection between new capital flotations and productive activity is discussed on the basis of bond issues only (p. 136); and no reason is given why bond issues should be regarded as more significant in this connection than stock issues—which had a totally different trend in 1927-29.

(b) It is stated that the bulk of savings comes from corporate savings—certainly an exaggeration (p. 138).

(c) It is stated that the effect of increasing the amount of bank credit was to deprive "the public" of any immediate benefit of improving productivity in the form of lower prices (p. 189). It is not explained, however, what became of the increased product if the public did not get it, or how the public would have been able to buy any more with lower

prices, and presumably lower incomes, than with higher prices and higher incomes.

(d) Although the "eclectic" theory runs entirely in terms of the quantity of bank credit, the historical section contains an extended criticism of the growth of investments and loans on security collateral at the expense of commercial loans. Wherein did this change tend to create disequilibrium any more than would a similar expansion in the form of so-called self-liquidating loans? The structural displacement of chapter 6 arises entirely from a difference between the quantity of new bank credit and the quantity of "real" savings; it does not depend on the form of the banks' assets. The only objection to security investments that is clearly stated by the authors relates to the impossibility of a simultaneous liquidation by all banks (p. 108); but it is admitted (pp. 109-10) that simultaneous attempts by all banks to liquidate so-called self-liquidating loans could hardly fail to bring economic activity to a virtual standstill. Investments are at least more "shiftable" than commercial loans, while a net liquidation in either case involves deflation.

CHARLES O. HARDY

Brookings Institution

NEW BOOKS

DICKINSON, H. C. *The mechanics of prosperity.* (Baltimore: Williams and Wilkins. 1937. Pp. xvi, 136. $2.)

In this little book a distinguished practical physicist gives his analysis of our economic system, and, in particular, his remedy for the business cycle. Our money economy at times piles up a residue of unused spending power because the interest rate is not sufficiently elastic. A boom is generated, followed by depression. Control of the interest rate would seem to be indicated, not directly, but by use of the national treasury as a super-savings bank. The treasury would accept deposits, payable on demand, from private banks, paying a variable interest rate "sufficient" to draw in the idle money; and it would spend this residue for public works. By this process depression can be checked. If it tends to pass into a boom, with rising prices, the government is to levy a sales tax at a rate altered from month to month so as to "tap off the excess of expansion." Some "independent non-political body of technical experts," like the Federal Reserve Board, is to collect and interpret the necessary statistics, to determine the amount of taxes "to be collected and spent, or collected as taxes and retired as the case may be." The aim is to avoid the exercise of "political and personal judgment."

The author, in part 3, ventures also into the fields of ethics and political philosophy; and everywhere the faith shines through that the major ills of the world can be avoided through use of his nostrums.

If economists, as an avocation, ever write books in the field of physics, it may be hoped that they will not so completely neglect the writings of physicists as Mr. Dickinson has neglected the writings of economists.

J. A. MAXWELL

HEMPEN, W. *Die Organisation der deutschen Verkehrswirtschaft, insbesondere der Unternehmungsformen in den einzelnen Verkehrszweigen.* (Jena: Fischer. 1937. Pp. 190. RM. 2.70.)

LUNDBERG, E. *Studies in the theory of economic expansion.* (London: P. S. King. 1937. Pp. 265.)

MASTERS, D. C. *The reciprocity treaty of 1854: its history, its relation to British colonial and foreign policy and to the development of Canadian fiscal autonomy.* (New York: Longmans. 1937. Pp. 291. $3.50.)

STETSON, H. T. *Sunspots and their effects from the human point of view.* (New York: McGraw-Hill. 1937. Pp. xv, 201. $2.)

This interesting volume directs attention to relationships between cosmic and terrestrial affairs. Chapter 5, "Sunspots and business," is devoted to consideration of the possible effects of solar disturbances upon business behavior. "If we look back . . . over many periods of booms and depressions and compare them with the solar cycle, we find that four out of the last five major business depressions have followed in the wake of sunspot maximum. The average interval between a period of the high, or maximum, in sunspots and the low of the depressions immediately following has been about two and a half years." Is it mere coincidence?

Due to "failure to find a sound basis of argument for a connection between agricultural yields and periods of prosperity and depression," the author discounts previous efforts of Jevons, Moore, and others to reveal relationships between sunspots, rainfall, agricultural production and general prosperity. But perhaps "changes taking place in the sun affect human psychology . . . and . . . periodic waves of pessimism and optimism are at the foundation of business behavior."

The period since 1933 has been one of rapid recovery of sunspot activity. Likewise, automobile production has increased; the number of new incorporations in leading eastern states has grown; and business failures throughout the country have declined in marked fashion. These and other positive relationships extending over the past thirty years are cited to show that sunspot maxima and accelerated business activity have occurred simultaneously. The author is careful to point out, however, the complete lack of scientific proof that business psychology and industrial activity are actually influenced by the solar cycle.

In a later chapter, "Can we predict sunspots?", it is stated that the present sunspot maximum cannot be expected to carry on much beyond 1938 without a substantial trend downward. This prediction is curiously interesting in view of the recent business recession which is generally attributed to pessimism and lack of confidence.

C. WARD MACY

TURNER, J. *Sources of current trade statistics.* Market res. ser. no. 13. (Washington: Supt. Docs. 1937. Pp. 54. 25c.)

WERHAHN, P. *Kapitalexport und Schuldentransfer im Konjunkturverlauf.* (Jena: Fischer. 1937. Pp. viii, 186. RM. 9.)

YOUNG, A. B. *Recurring cycles of fashion, 1760-1937.* (New York: Harper. 1937. Pp. xiv, 216. $3.)

Of interest as showing the operation of cycles in fields other than economics. There are three cycles per century. Fully illustrated, year by year.

Chicago: world trader. (Chicago: League of Nations Assoc., Midwest Office. 1937. Pp. 39.)

Companies: forty-sixth general annual report by the Board of Trade. (London: H. M. Stationery Office. 1937. Pp. 20. 4d.)

Import and export list issued under the authority of the Lords Commissioners of His Majesty's Treasury, and the Commissioners of His Majesty's Customs and Excise, for use on and from the 1st January, 1938, and until further directed, for articles of merchandise imported into the United Kingdom or exported therefrom. (London: H. M. Stationery Office. 1937. Pp. x, 142. 9d.)

International trade in certain raw materials and foodstuffs by countries of origin and consumption, 1936. (Geneva: League of Nations. New York: Columbia Univ. Press. 1937. Pp. 164. $1.25.)

Reciprocal trade: a current bibliography. 3rd ed. (Washington: U. S. Tariff Commission. 1937. Pp. 282, 129*.)

Accounting, Business Methods, Investments and the Exchanges

NEW BOOKS

ABBOTT, C. C. *The New York bond market, 1920-1930.* Harvard econ. stud. 59. (Cambridge: Harvard Univ. Press. 1937. Pp. xvii, 224. $2.50.)

ADAMS, J. R. *More power to advertising.* (New York: Harper. 1937. Pp. 193. $2.50.)

ANGAS, L. L. B. *Slump ahead in bonds: outlook for bonds (and stocks) under managed money.* (New York: Somerset Pub. Co. 1937. Pp. 58.)

BAKKEN, H. H. and SCHAARS, M. A. *The economics of coöperative marketing.* (New York: McGraw-Hill. 1937. Pp. viii, 583. $4.)

BENNETT, G. V. and SACHS, G. M. *Exploring the world of work: a guidebook to occupations.* (Los Angeles: Soc. for Occupational Res. 1937. Pp. xx, 596.)

BORDEN, N. H. *Problems in advertising.* 3rd ed. (New York: McGraw-Hill. 1937. Pp. xiv, 698. $5.)

BRISCO, N. A. and WINGATE, J. W. *Buying for retail stores.* (New York: Prentice-Hall. 1937. Pp. xvi, 565. $5.50.)

A revision and expansion of *Retail Buying,* published by the same authors in 1925, this book is one of the most comprehensive and detailed treatises yet available on buying for retail stores. The authors feel that in order to place the subject upon a scientific foundation "retailing facts must be organized on a sound and dependable basis." Accordingly the book is concerned with underlying principles of what, when, where and how to buy.

Although the book gives increased attention to the buying of other types of stores, it still takes most of its facts and develops most of its principles from the department-store field. In defense of this emphasis upon a particular segment of retail trade, it should be pointed out that buying methods have been subjected to more careful study and control in this branch of trade than in any other and that, due to the wide range ofgoods handled in department stores, principles developed there are generally applicable to most all types of retail business.

Attention is given throughout the book to the latest developments in merchandising so as to minimize the hazards of buying goods which cannot be resold at a profit. Sales analyses, stock planning, laboratory testing, central

purchasing, and fashioning are discussed and evaluated along with the new developments in governmental restrictions, such as the Robinson-Patman act and the so-called fair-trade laws.

E. D. McGarry

Brown, L. O. *Market research and analysis.* (New York: Ronald. 1937. Pp. xiv, 487. $4.)

This useful volume is comprehensive in coverage, reasonably simple in style, and modern in its handling of technique. After three chapters devoted to presenting the background and theory of market analysis, the practical methods of operation are discussed in twelve chapters. Market surveys and analysis are examined in detail, as follows: choice of basic methods and their adaptability to certain problems, planning the investigation, types and sources of data, preparations of forms, the sample, operating plans and costs, gathering data, tabulating, editing, testing the sample, statistical conclusions, interpreting, presentation of the results. The final three chapters are devoted to a discussion of the uses, limitations, and rôle of market analysis in the modern business picture. The only real weakness of the presentation is the inadequate treatment of bibliographical research, *i.e.,* the accumulation and analysis of material already available which is pertinent to each particular research problem.

Few important books on market research and analysis have appeared for several years. It is significant, therefore, to note that 1937 has brought forth three major works in this field. In addition to Dr. Brown's monograph, the American Marketing Society sponsored a symposium edited by Ferdinand C. Wheeler on *The Technique of Marketing Research* (McGraw-Hill). This volume is strong as regards the gathering and collection of research data and the psychological aspects of market analysis. *Marketing Research* (University of Michigan) by Professor D. M. Phelps gives an excellent picture of the philosophy underlying market research and analysis. Most courses in this subject will use Brown or Wheeler as a text with Phelps as collateral reading. For the economist or business-man, these three volumes form a broad unit comprehensively covering the field of modern market research and analysis.

Albert Haring

Chapman, P. W. *Occupational guidance.* (Atlanta: Turner E. Smith. 1937. Pp. 646. $1.76.)

Cowan, D. R. G. *Sales analysis from the management standpoint.* (Chicago: Univ. of Chicago Press. 1938. Pp. xi, 210. $2.50.)

Cragg, A. *Understanding the stock market today: a handbook for the investor.* (Garden City, N.Y.: Garden City Pub. Co. 1937. Pp. xvi, 294. $1.)

Culver, D. C., compiler. *Training for public service: a bibliography.* (Berkeley: Univ. of California Bur. of Pub. Admin. 1937. Pp. 52.)

Dohr, J. L. *The law of business.* (New York: Ronald. 1937. Pp. xviii, 659. $4.)

This treatise has been prepared primarily for accountants and has for one of its objectives detailed exposition "of those portions of the law which are involved in accounting principles, procedure and practice." The first two parts of the book are concerned with general concepts and basic or general law. The third part deals with the law of the conduct of business. A second volume is contemplated, to cover the law involved in financial statements and in the public practice of accounting.

W. P. Fiske

FILFUS, N. and KASDEN, A. *Progressive business law.* (New York: Gregg Pub. Co. 1937. Pp. 351. $1.20.)

GARDINER, G. *How to handle grievances.* (New York: Elliott Service Co. 1937. Pp. 59. 60c.)

GLOVER, J. G. and MAZE, C. L. *Managerial control: instruments and methods in industry.* (New York: Ronald. 1937. Pp. xviii, 574. $4.50.)

GRAHAM, B. and MEREDITH, S. B. *The interpretation of financial statements.* (New York: Harper. 1937. Pp. viii, 122. $1.)

This book, designed for business-men, bankers and investors, is built upon material used in the educational work of the New York Stock Exchange Institute. As a highly elementary exposition of the content of financial statements it can be of some use to small investors. (A thirty-one page section devoted to definitions of financial terms and investment is a valuable feature for this group.) For business-men, security salesmen and customers' men (all specifically mentioned), it is not so serviceable. Contrary to the preface, analysis of financial statements is not a comparatively simple matter. It involves a thorough understanding of accounting and accounting policies, of the economic and operating characteristics of various industries, of the effect of those characteristics on financial condition, and the interpretation of financial figures in the light of this background. All this the sound investment analyst must appreciate; until he does, statistical techniques are dangerous tools. Even an introduction to statement analysis should point out and consider at least briefly these fundamental problems.

W. P. FISKE

HARDING, C. F. and CANFIELD, D. T. *Business administration for engineers.* (New York: McGraw-Hill. 1937. Pp. xiv, 637. $5.)

HEPNER, H. W. *Finding yourself in your work: a guide for career and personality.* (New York: Appleton-Century. 1937. Pp. xviii, 297.)

INGRAHAM, H. A. *Accounting problems.* (New York: Am. Inst. of Banking. 1937. Pp. 109. $2.)

IVEY, P. W. *Successful salesmanship.* (New York: Prentice-Hall. 1937. Pp. xx, 497.)

JONES, E. N. *One year of W. P. A. in Pennsylvania, July 1, 1935-June 30, 1936.* (Harrisburg: Works Progress Admin. 1937. Pp. 139.)

JORDAN, D. F. *Problems in investment principles and security analysis.* 1937 ed. (New York: Prentice-Hall. 1937. Pp. 212.)

KINDLEBERGER, C. P. *International short-term capital movements.* (New York: Columbia Univ. Press. 1937. Pp. xi, 262. $3.)

KIRK, J. G., BUCKLEY, H. B. and WAESCHE, M. A. *Introduction to business.* (Philadelphia: Winston. 1937. Pp. viii, 500.)

LAIRD, D. A. *The psychology of selecting employees.* 3rd ed. (New York: McGraw-Hill. 1937. Pp. 329. $4.)

LAZO, H. *Retailer coöperatives: how to run them.* (New York: Harper. 1937. Pp. 260. $3.)

LEBENTHAL, L. S. *The A B C of municipal bonds.* (New York: Harper. 1937. Pp. viii, 166. $1.50.)

LEWIS, B. W. *Price and production control in British industry.* (Chicago: Univ. of Chicago Press. 1937. Pp. 35. 25c.)

MACKINNON, D. *Investors' trading indicator: product of Standard Economic Surveys, Limited.* (Toronto: Author. 1937.)

MACLEAN, J. B. and MARSHALL, E. W. *Distribution of surplus*. Stud. no. 6. (New York: Actuarial Soc. of America. 1937. Pp. 164. $3.)

MCNAIR, M. P., GRAGG, C. I. and TEELE, S. F. *Problems in retailing*. (New York: McGraw-Hill. 1937. Pp. xv, 676. $5.)

This is the fourth in a series of case books on retailing prepared by the teachers in the Harvard Graduate School of Business Administration. In the opinion of the authors the successful management of any retail store is largely a matter of reaching and administering sound decisions on a wide variety or problems which are involved in the purchase and resale of consumer's goods. Though the acquisition of factual knowledge about retail procedures is important, the students should be taught that the development of the ability to reason intelligently about the facts in any specific situation is an equally essential accomplishment.

While this volume was prepared as a basic collection of cases for use by the students in the Harvard School of Business Administration to be supplemented by additional cases in mimeographed form, the authors also kept in mind the fact that it would be used in other schools and colleges. As a result there is a satisfactory introductory chapter and each of the other chapters has a briefer introduction covering the most important facts to be considered in solving the problems.

The cases have been carefully selected from many submitted by retail merchants in different parts of the country. For that reason they present the practical problems faced by retailers in a number of fields. The cases cover such problems as merchandise policies, merchandise selection, pricing, buying, merchandise control, sales promotion policies, service policies, advertising and related problems, selling, personnel and organization, accounting and general management policies.

GEORGE T. STARNES

MCNALL, P. E. and MCMURRY, K. F. *Agricultural bookkeeping*. (New York: Longmans Green. 1937. Pp. viii, 205.)

MARDER, L. *C. P. A. review: auditing and theory—questions with answers*. (New York: Author. 1937. Pp. 40. $2.)

MARTIN, R. F. *International raw commodity price control*. Stud. no. 238. (New York: Nat. Industrial Conf. Board. 1937. Pp. xvi, 166. $3.50.)

MASON, P. *Principles of public-utility depreciation*. (Chicago: Am. Accounting Assoc. 1937. Pp. xi, 128. $1.)

Professor Mason presents a readable and concise discussion of the depreciation problem as applied to public utilities. He firsts develops the general principles of depreciation and of depreciation accounting and then analyzes their application to public utilities by the various regulatory commissions. Finally, he reviews the leading court decisions.

Throughout his study of the regulatory practices of commissions and decisions of courts, the author shows an excellent grasp of the accounting and economic principles and an appreciation of the practical problems involved in the proper handling of depreciation. The outline of the book is simple and easily followed. Distinctions between different concepts are carefully made and the discussions of the various problems are remarkably clear.

As a very understandable presentation of a technical and involved subject the book should be particularly valuable to executives and to general students.

H. H. CHAPMAN

MAY, G. O. *Improvement in financial accounts.* Lectures on the A. Lowes Dickinson Found., April 12-14, 1937. (Boston: Harvard Univ. Grad. School of Bus. Admin. 1937. Pp. 57.)

MERIAM, L. *Personnel administration in the federal government.* (Washington: Brookings Institution. 1937. Pp. 62. 50c.)

MONTGOMERY, R. H., editor. *Financial handbook.* 2nd rev. ed. (New York: Ronald. 1937. Pp. 1689. $7.50.)

NYSTROM, P. H. *Retail store operation.* 4th ed., rev. and enl. (New York: Ronald. 1937. Pp. xvii, 702. $4.50.)

ODELL, W. R., and others. *How modern business serves us.* (Boston: Ginn. 1937. Pp. viii, 471.)

PAGE, R. *Primer of electric service costs: information for the use of public utility employees in dealing with the public.* (New York: Harper. 1937. Pp. 94.)

PHELPS, D. M. *Marketing research: its function, scope, and method.* Michigan bus. stud. vol. viii, no. 2. (Ann Arbor: Univ. of Michigan. 1937. Pp. iv, 149. $1.)

Like Caesar's Gaul, this treatise is divided into three parts indicated by the sub-title: functions, scope and method. Its outstanding contribution is in the first chapter, in which the author makes an excellent analysis of the economic significance of marketing research. The chapter on "Scope" is complete, but necessarily general. It might well be boiled down to the statement that every phase of marketing operations is a logical subject for research. The final chapter on "Method" is not a description of specific techniques used in the field, but rather a discussion of the processes of thought which underlie marketing research work.

It is this reviewer's opinion that economists in general have given too little attention to the effect of business-men's mistakes of judgment, resulting from inadequate information, in causing imperfect operation of economic "laws." Our modern economic structure is complex. Producers, by and large, know pitifully little about the environment in which they must operate. What information they do have is seldom timely. As the author says, "The most general result of inadequate market observation is an irrational direction of economic activity." The general welfare suffers when business decisions result in improper adjustment to current economic forces.

When, if ever, a majority of business-men learn to use marketing research as a few now do, we can expect a much more rational direction of economic activity and consequently a more stable economic structure.

R. F. ELDER

PLANT, A., editor. *Some modern business problems: a series of studies.* (London: Longmans, Green. 1937. Pp. viii, 336. 7s. 6d.)

POLLAND, J. E. *Principles of newspaper management.* (New York: McGraw-Hill. 1937. Pp. 472. $3.50.)

PORTER, K. H. *State administration.* (New York: Crofts. 1938. Pp. xi, 450. $3.50.)

ROBSON, W. A., editor. *Public enterprise: developments in social ownership and control in Great Britain.* (Chicago: Univ. of Chicago Press. 1937. Pp. 416. $3.)

DE ROOVER, R. A. *Aux origines d'une technique intellectuelle: la formation et l'expansion de la comptabilité à partie double.* Extrait des *Annales d'Histoire Econ. et Soc.* (Paris: Armand Colin. 1937. Pp. 52.)

Although concerned with the development of a fundamental accounting technique, Mr. de Roover has written his monograph for and from the point of view of economic historians. The unifying thesis of the three sections appears to be that the development of accounting technique follows business need for information and control. In proof of this he points to substantial differences in the rate of development in different countries and shows a correlation between these differences and business development. "It is clear that in Italy where economic life was more highly developed commercial accounting found a fertile ground for rapid development. . . . In the other countries of Europe . . . which were not so highly developed economically, progress was slower and improvements did not appear as soon. Flanders was the only exception. Thanks to the close contact it maintained with the other side of the Alps and to the presence of many Italians in Brussels, Italian accounting methods were introduced sooner than elsewhere."

The earliest accounts were single entry in form. Nevertheless as business became more complex even these were adapted to the new needs. New accounts were introduced, first personal and then later impersonal. The transition to double entry was a gradual development, not a sudden and sharp break. This transition clearly appears in some of the old books of account still extant. The earliest example of double entry appears in certain Genoese records dating back to the middle fourteenth century. From Italy the technique spread throughout Europe.

Mr. de Roover discusses at some length the early treatises on double entry accounts. He points out that "in the earliest accounting authors one may search in vain for a reasoned theory of accounts or for the 'why' of rules expounded. Their treatises are descriptive and practical in nature." He concludes that "to have any really adequate concept of the state of development of commercial accounting in the sixteenth century it is essential to go to actual books of account of the period."

An interesting aspect of the monograph is the indication it gives of the very early roots of many accounting policies still warmly supported. There are references to periodic inventories, to valuation of inventories at market where lower than cost, and to cost accounts entirely adequate for the relatively simple needs of the period covered. To the latter point the author devotes the entire last section of his paper.

The relatively short time needed to read Mr. de Roover's monograph has been for this reviewer the occasion of real instruction and pleasure. The viewpoint is fresh, and the text, well footnoted, carries an air of authority.

W. P. FISKE

RUKEYSER, M. S. *The diary of a prudent investor: a program for financial security.* (New York: Hillman-Curl. 1937. Pp. 107. $1.)

SALIERS, E. A. and HOLMES, A. W. *Basic accounting principles.* (Chicago: Business Pubs. 1937. Pp. vi, 656. $4.)

This elementary text offers a wider selection of topics than is usual. Considerable space is devoted to business organization, law and practice. Problems

and practice sets are ample. In view of a stated belief in the mastery of theory as a foundation for practice and an avowed emphasis along the line, there is a general inadequacy of definitions and lack of seasoned discussion of justification of rules and practices. A mere description of possible alternatives does not constitute theory.

W. P. FISKE

SCHLAUCH, W. S. and LANG, T. *Mathematics of business and finance.* (New York: Ronald. 1937. Pp. xv, 548. $4.25.)

DE SCHWEINITZ, D. *Occupations in retail stores.* Study sponsored by the National Vocational Guidance Assoc. and the U. S. Employment Service. (Scranton: Internat. Textbook Co. 1937. Pp. xix, 417.)

To vocational counselors, teachers and employment workers, this book will undoubtedly come as a major contribution to the analysis of occupations in our largest field of employment—that of retail distribution. Retailers themselves should find it a highly useful book in its careful analysis of some forty-five different jobs in retail stores, and the proper qualifications for each. This applies particularly to that large group of smaller stores where standards of personnel training have not received adequate attention, a group which the author has fortunately included in her sample. In its broader significance one cannot but be impressed with the results which it shows can be secured by coöperative research. Here is an example of what intelligent joint action between a government bureau and a private research agency, sponsored by funds supplied by a foundation, can accomplish when it launches a comprehensive piece of much-needed research.

S. J. KENNEDY

SEED, H. E. *Goodwill as a business asset.* (London: Gee. 1937. Pp. 472. 12s. 6d.)

SIMONE, L. DE. *Progrès technique; rythme des affaires.* (Geneva: Commission Romande de Rationalisation. 1937. Pp. 23.)

TOULMIN, H. A., JR. *Trade agreements and the anti-trust laws, including forms and an analysis of the Robinson-Patman act.* (Cincinnati: Anderson. 1937. Pp. xviii, 540.)

TROUANT, D. L. *Financial audits.* (New York: Am. Inst. Pub. Co. 1937. Pp. viii, 245.)

WATSON, J. D. *Business mathematics: an introductory textbook.* (New York: Ronald. 1937. Pp. ix, 267. $2.50.)

WEISS, E. B. and LARRABEE, C. B. *How to sell through wholesalers.* (New York: Harper. 1937. Pp. 238. $2.75.)

WIPRUD, T. *Business side of medical practice.* (Philadelphia: Saunders. 1937. Pp. 177. $2.50.)

WYLIE, H. L., and others. *Practical office management: the correlation of men, methods, and machines.* (New York: Prentice-Hall. 1937. Pp. 323. $4.)

ZORN, B. A. and FELDMAN, G. J. *Business under the new price laws.* (New York: Prentice-Hall. 1937. Pp. 480. $5.)

Cost accounting procedure. 5th ed. (Chicago: La Salle Ext. Univ. 1937. Pp. 370. $3.50.)

Credit manual of commercial laws. 1938 ed. (New York: Nat. Assoc. of Credit Men. 1938. Pp. 714. $6.50.)

Domestic and residential rates in effect January 1, 1936, trends in residential rates from 1924 to 1936, cities of 50,000 population and over. (Washington: Federal Power Commission. 1937. Pp. 40. 15c.)

Foreign investments in the United States. (Washington: Supt. Docs. 1937. Pp. viii, 109. 15c.)

Illinois Commerce Commission: twentieth annual report, July 1, 1936, to June 30, 1937. (Springfield, Ill.: State House. 1937. Pp. 168.)

The Millinery Stabilization Commission, Inc.: report, February 1, 1936, to July 30, 1937. (New York: Millinery Stab. Commission. 1937. Pp. 38.)

Multiple-shift operation. Stud. in personnel policy no. 3. (New York: Nat. Industrial Conf. Board. 1937. Pp. 4. 25c.)

National Resources Committee: progress report, 1937. Statement of the Advisory Committee. (Washington: Supt. Docs. 1937. Pp. iv, 20. 10c.)

Of interest as showing the fields of national planning in which expert committees are working.

Oliphant's studies in securities, 1937. 11th annual issue. (New York: Oliphant. 1937. Pp. 231.)

Personnel policies affecting salesmen. Stud. in personnel policy no. 4. (New York: Nat. Industrial Conf. Board. 1938. Pp. 19. $1.)

Tested sales compensation plans. Compiled by the editors of *Printers' Ink.* (New York: McGraw-Hill. 1937. Pp. 215. $2.)

Training for industry. Stud. no. 237. (New York: Nat. Industrial Conf. Board. 1937. Pp. viii, 29. $1.)

Uniform system of accounts for electric utilities. (New York: State Law Reporting Co. 1937. Pp. 213. $2.)

Uniform system of accounts for gas utilities: classes A and B. (New York: State Law Reporting Co. 1937. Pp. 166. $2.)

Capital and Capitalistic Organization

Government Proprietary Corporations in the English-Speaking Countries. By JOHN THURSTON. (Cambridge: Harvard Univ. Press. 1937. Pp. xii, 294.)

The methods by which democratic countries can successfully translate into actuality their increasing desire for social regulation of economic activity are of concern to all social scientists. Few more apt examples of the need for breaking down the barriers between the work of scholars in several fields can be cited. The lawyer, the political scientist, the sociologist, and the economist are all deeply concerned with the problem. The book here reviewed happens to have been written by a political scientist.

The corporation owned wholly or primarily by a sovereign government is a rapidly developing device for successfully managing specific economic enterprises in countries which wish to retain some of the principles of free enterprise and also have democratic political machinery. They are to be sharply distinguished from administrative commissions or agencies, for they are designed to exercise positive and constructive powers and are little concerned with the negative or punitive type of control. Mr. Thurston's

study shows how much experimentation there has been, and how successful the device has been under many different circumstances. He also points out failures and tries to explain them.

The author builds his analysis upon more than fifty actual examples of this type of governmental corporation in the United States (32 cases) and in Great Britain and the Dominions (22 cases). Most familiar among the group studied are the Boston Elevated Railway, Inland Waterways Corporation, the Tennessee Valley Authority, the Port of New York Authority in this country, and the Hydro Commission of Ontario, the British Broadcasting Corporation, London Passenger Transport Board, and the Canadian National Railways abroad. Constant reference is made to the form of these various enterprises, their diverse origin and status, their difficulties and successes, in order to draw conclusions as to proper policies for the future.

This peculiar type of corporation collides with the legal concept of a private corporation in many ways. They have been variously regarded by the courts as direct agencies of sovereignty and as semi-private corporations subject to the usual obligations and infirmities of private corporations. The author inclines to the view that they should be subject to ordinary rules of law concerning liability, and be given as little benefit as possible from the sovereign nature of their sole or principal stockholder.

A second portion of the book shows the different ways in which these bodies have come into being. They may have acquired private enterprises by virtue of a purchase statute and compensation, or may have been empowered to undertake wholly new enterprises. In some cases governments have subscribed stock, in others have guaranteed bonds. Mr. Thurston argues convincingly that financially they should be made to stand on their own feet, as the Port of New York Authority has done. Financial dependence leads to political control, but an independent position is the best protection against the petty interference of politicians.

It is in sections dealing with the actual conduct of administration, and the relations of such corporations with government officials or bodies that the author makes his best contributions. An independent board of directors free from day-to-day interference, and responsible only for the accomplishment of major policies, is essential for success. It is possible to keep these bodies free from the spoils system, and to enlist able men on their staffs, if they are so treated.

There is much cheering material here for those who believe or hope that democracies can develop workable machinery of administration which will keep pace with the underlying drift toward social control. The ordinary executive department or board is not the answer, neither is the administrative commission, despite the virtues of the latter when the problem is one of negative control. If an important forward step in methods can be made

along these lines, the objections and fears of many will be overcome, and we shall be a long way ahead toward the goal of effective economic control within the framework of political democracy. Students should be directed to books of this sort rather than to the collections of platitudes on collectivism and national planning which have plagued us since 1930.

SHAW LIVERMORE

University of Buffalo

NEW BOOKS

ARNOLD, T. W. *The folklore of capitalism.* (New Haven: Yale Univ. Press. 1937. Pp. vii, 400. $3.)

CROMWELL, J. H. R. and CZERWONKY, H. E. *In defense of capitalism: an explanation of the functioning of our capitalistic system of today and of specific measures which would correct its defects.* (New York: Scribner's. 1937. Pp. xvii, 373. $3.50.)

The authors are a business executive and a mechanical engineer. The business executive had studied economics at a prominent school of finance and commerce, and had acquired business experience with a well-known banking house, followed by executive experience in charge of a successful automobile financing business, an unsuccessful Florida land-boom company in 1926, and a motor-car corporation, which, in spite of good management, was forced to shut down after 1933, after which he studied the theories of the classical and post-war economists and married the daughter of the Duke millions.

The mechanical engineer, after teaching his subject in an engineering college, made, in 1933, an engineering analysis of distribution for the Processing and Marketing Division of the Agricultural Adjustment Administration, followed by a report for the Federal Emergency Relief Administration on many self-help coöperatives which had resorted to barter, book-credit and scrip instead of money.

These practical experiences, the authors claim, are what economists needed, but did not have, and therefore their failure to understand business. The authors found, in 1934, that they "shared virtually identical ideas concerning the cause and prevention of business depressions."

These ideas were that capitalism had "not been given a fair chance" to show what it could do toward providing abundance of wealth, and that this denial was in "our monetary organization." This organization should first be remedied before resorting to "a system of regimentation and rationing," which had been adopted because economists had not shown how, without destroying capitalism, to prevent repetition of the seventeen depressions of the past more than a hundred years.

The authors would set up the Federal Reserve Board as a bank of issue, with fourteen-year terms of office and reappointments, with salaries and pensions equal to those of the Supreme Court justices, and with independence from politics or pressure. This is on the analogy of a business executive in charge of the operations of a large corporation.

The function of the Board would be to "synchronize" the "flow" of new money with the flow of consumers' goods, on the engineer's analogy of a physical flow of materials through a national integration of all industries from the farms, mines, forests, transport, to the ultimate consumer, illus-

trated by six colored *Tableaux Economiques,* though they seem not to have known about Quesnay. The two other flows, man-hours of labor and corporate bonds and stocks, make up the "four-dimensional" capitalistic economy of today, not understood by economists but herein gratefully synchronized by the mechanical engineer's analysis.

JOHN R. COMMONS

LARCOM, R. C. *The Delaware Corporation.* (Baltimore: Johns Hopkins Press. 1937. Pp. vii, 199. $2.25.)

This little book is an interesting descriptive presentation of the development of some principal phases of the laws of incorporation of the State of Delaware. In the words of the author the primary concern is "the nature of the corporation law which has resulted from a competitive policy, the conditions which have induced business-men to seek new powers or privileges, and the manner in which such new powers have been granted in Delaware and their effects."

An introductory chapter which sets forth the conditions motivating the adoption of the Delaware Corporation law of 1899 is followed by a discussion of the further development of the law under the following subheads: the certificate of incorporation, the power to hold stock in other corporations, capital stocks, corporate capital and the exercise of corporate powers. Each subject is treated chronologically and the discussion is enlivened by frequent citation of leading cases. Of necessity, the laws of other states are introduced for purposes of comparison or contrast. One of the best discussions is that of corporate capital although the chapter might better have been called "Regulation of dividends."

A brief concluding chapter presents statistics to show that while the total number of corporations domiciled in Delaware is not so imposing, the great size of many of these corporations accounts for the fact that they rarely contribute less than 25 to 40 per cent of the total state revenue. The author contends that Delaware definitely started out to profit from incorporation and has succeeded, regardless of the ethics involved.

The bibliography, for such a small volume, is imposing.

J. ELLWOOD AMOS

SMITH, J. B. R., editor. *New York laws affecting business corporations.* Rev. to June 7, 1937. 18th ed. (New York: U. S. Corp. Co. 1937. Pp. xxxii, 520.)

STEIN, E. *Understanding corporations.* Stud. outline no. 4. (New York: N. Y. Univ. Service Bur. for Adult Educ. 1937. Pp. 56. 50c.)

Labor and Labor Organizations

Labor in Canadian-American Relations. The History of Labor Interaction. By NORMAN J. WARE. *Labor Costs and Labor Standards.* By H. A. LOGAN. (New Haven: Yale Univ. Press. Toronto: Ryerson Press. 1937. Pp. xxxviii, 212. $3.75.)

This is one of a series of studies on *The Relations of Canada and the United States* prepared under the direction of the Carnegie Endowment for International Peace. It is really two monographs in one volume. There is here no implication that there is no connection between the two monographs.

On the contrary, the connection is a very close and real one as is apparent when it is stated that the first study, by Mr. Ware of Wesleyan University, deals with the history of labor relations between the two countries and the second, by Mr. Logan of the University of Western Ontario, with labor costs and labor standards in the United States and Canada.

It is perhaps both fortunate and unfortunate for Mr. Ware that his contribution is concerned with a subject that is comparatively well known to Canadians and to a less extent to Americans. Though full details are not lacking, the presentation is often confused and the important points not clearly defined. For instance there is an excellent description of the National Catholic Unions, but the ramifications of the more important points at issue between them and the International Unions do not seem to me to be dealt with adequately. On the other hand the problems which have arisen as the result of the C.I.O. penetration into Canada are presented clearly and concisely. The influence of British Trade Union policy and tactics on Canadian Trade Unions is probably exaggerated though this is a question upon which there may well be a difference of opinion.

In comparing labor costs and labor standards in the two countries Mr. Logan has chosen the industrialized provinces of Ontario and Quebec with comparable parts of the United States. This restriction of area is probably desirable and certainly necessary in order to make a comparison that approaches definiteness and exactness. The author must be highly praised for the statistical material which he has accumulated and for the scientific and unprejudiced conclusions which he deduces from his data.

His general deductions are for the most part in conformity with popular views. He shows that wages in his selected Canadian area are lower than in the comparable American area and that standards of living are also lower. He also shows that the differences in some industries are much greater than in others. For example the difference is not great in the automobile industry, while it is very great in the production of boots and shoes which, for the most part, are manufactured in Quebec where wages are low.

The second part of this volume is more evenly balanced than the first part in that the picture presented of labor costs and labor standards is as much an American as it is a Canadian picture. On the other hand that portion which deals with the history of labor interaction is confined quite too much to the Canadian scene. The chapter on the Coöperative Commonwealth Federation is weak in so far as it is connected too closely with the personality of its founders and leaders.

J. C. HEMMEON

McGill University

NEW BOOKS

ARNDT, P., SHEN, D. and LO, C-F. *Der Arbeitslohn in China.* (Leipzig: Buske. 1937. Pp. xii, 352. RM. 9.)

BALDERSTON, C. C. *Profit sharing for wage earners.* (New York: Industrial Rel. Counselors. 1937. Pp. viii, 156. $2.)

BRIEFS, G. A. *The proletariat: a challenge to western civilization.* (New York: McGraw-Hill. 1937. Pp. xviii, 297. $3.)

In this essay on social philosophy written by a German scholar now teaching at Georgetown University, the proletarian is defined as "a propertyless wage earner . . . who regards himself and his kind as constituting a distinct social class. . . ." Commencing with a discussion of the rise of the proletariat, the author develops his conception of the meaning of that term, the sources of that group, and the ideas held by the members of that group. Of special interest to American students is the chapter entitled "Proletarian potential of American labor," in which Professor Briefs explains why no proletarian group has arisen among American workers and discusses "the trend toward proletarization and the counterforces."

Final chapters deal with "The adventure of capitalism" and "A challenge to western civilization." The adventure is the attempt to provide the propertyless proletariat with real personal freedom. In fact, says the author, "the whole possibility of success for capitalism turns upon the worker's having assurance of a job and adequate pay for it. . . ." Under capitalism social legislation has given workers a substitute for property. Communist societies have met the problem by eliminating private property for all. The totalitarian state abolishes the individualistic rights of labor and replaces them with security, that is, with a guarantee of jobs or relief. To our author social legislation is the solution most in line with occidental traditions. The challenge to western civilization, however, is more than the need for security. It is the problem of elevating the proletarian as a person. The challenge to western civilization, concludes the author, "will be raised as long as the laboring man can safeguard his personality only by anchoring it in collective organizations and public institutions, without any relation to the truly communitarian orders of his life, to those which, after all, are the essential social forms in which man as a person grows and matures."

FRANK T. DE VYVER

BROOKS, R. R. R. *When labor organizes.* (New Haven: Yale Univ. Press. 1937. Pp. x, 361. $3.)

The author, on the economics staff at Williams College, covers the period of three years preceding August 10, 1937. He assembled his materials by personal observation, by interviews and attention to the hearings of the La Follette investigating committee of the United States Senate. Brief description is given of trade agreements and the way in which they work; but the book is limited, as the title indicates, to when, where and how "labor" organizes and "capital" counter-organizes. The description, aided by photographs, centers in the chapters on "Strikes" and "Breaking strikes," with the biologist's absence of emotion in classifying orders, suborders and varieties of violations of law, espionage, counter-espionage, deaths, loyalties, disloyalties. There are chapters on the evolution of structure and the probable future of these organizations in an evolving society, without the catchwords of communism, fascism, or class struggle, but leaning toward the C.I.O. There are descriptions of personalities with analysis of the position of leaders of labor and managers of capital, bearing upon the extent to which there may be dictatorship or democracy within

the respective organizations, mainly, in the case of labor, through control of finances, with resulting effects on attack and defense. The benefit and welfare policies of unions and corporations are compared as contributory to strikes and breaking strikes, as well as the varieties of propaganda on both sides designed to win the support of public opinion, of the press, the police, the politicians, courts and juries.

The period reported upon is startling enough, though similar to others that followed business depressions in the past. It is important to have recorded at its crisis this intimate account of dual and aggressive labor organizations and the tentative reversals of long-continued anti-union policies in some of the mass-production industries.

JOHN R. COMMONS

CALMER, A. *Labor agitator: the story of Albert R. Parsons.* (New York: Internat. Pubs. 1937. Pp. 126. $1.)

CLARK, H. F., and others. *Life earnings in selected occupations in the United States.* (New York: Harper. 1937. Pp. xx, 408. $5.)

COLEMAN, J. W. *Labor disturbances in Pennsylvania, 1850-1880.* A thesis. (Washington: Catholic Univ. of America. 1936. Pp. viii, 189.)

DUNN, R. W. and WALLACE, G. *Life and labor in the Soviet Union.* Pamph. no. 52. (New York: Internat. Pubs. 1937. Pp. 46. 5c.)

EDEL, F. *German labour service.* Pub. no. 6. (Berlin: Terramare. 1937. Pp. 32.)

FELLER, A. and HURWITZ, J. E. *How to deal with organized labor.* (New York: Alexander Pub. Co. 1937. Pp. 658. $6.50.)

FOENANDER, O. DE R. *Towards industrial peace in Australia.* (New York: Stechert. 1937. Pp. 292. $5.25.)

HARBISON, F. H. *Collective bargaining in the steel industry: 1937. A factual summary of recent developments.* (Princeton: Princeton Univ. Industrial Rel. Sec. 1937. Pp. 43. $1.)

HENIG, H. *The Brotherhood of Railway Clerks.* (New York: Columbia Univ. Press. 1937. Pp. 300. $3.)

HERRING, H. and HATCHER, H. *Should labor unions be regulated?* Vol. 3, no. 10. (New York: Social Action. 1937. Pp. 31. 10c.)

HOPKINS, G. *The labor spy.* Vol. 3, no. 12. (New York: Social Action. 1937. Pp. 31. 10c.)

IRELAND, T. *Child labor, as a relic of the Dark Ages.* (New York: Putnam. 1937. Pp. 336. $2.50.)

JOHNSTON, T. *Labour's policy of food for all.* (London: Labour Party. 1937. Pp. 12. 1½d.)

KNOX, F. *Labor under dictatorships and democracies: a series of editorials reprinted from the Chicago Daily News.* (Chicago: Chicago Daily News. 1937. Pp. 73.)

KUCZYNSKI, J. *Löhne und Ernährungskosten in Deutschland, 1820 bis 1937.* (Libau: Meyer. 1937. Pp. 45.)

METCALF, H. C., editor. *Collective bargaining for today and tomorrow: approach and method.* (New York: Harper. 1937. Pp. 192. $2.25.)

PIDGEON, M. E. *Women in the economy of the United States of America.* (Washington: Supt. Docs. 1937. Pp. vi, 137. 15c.)

This summary report was prepared for the International Labor Office in response to the requests of ten large national organizations of American wom-

en. Two main themes are considered: (1) opportunities and conditions of employment, and (2) the influence of labor legislation on positions open to women, on their earnings and on conditions of work. The report also gives an excellent summary of the results of numerous studies showing contributions to the wealth of the nation made by the three-fourths of the women who are homemakers. Ninety-five per cent of these women have no paid assistance. The farm women work harder than those in cities, but the average is about 50 hours per week. The majority of the families do not have incomes which permit the purchase of labor-saving equipment. Labor legislation applicable to both sexes usually confers greater benefits upon women. This is evident in the studies of the N. R. A. regulations. A careful review of minimum wage legislation proves that it has brought substantial gains in wages without lessening materially the opportunities for employment of women. Those requesting this report will find innumerable references to reliable sources of information as well as critical summaries of statistical data dealing with many aspects of the economic relations of American women.

LUCILE EAVES

RAUSHENBUSH, C. *Fordism: Ford and the workers; Ford and the community.* (New York: League for Industrial Democracy. 1937. Pp. 64. 15c.)

RUCKER, A. W. *Labor's road to plenty: the return to the American system of productivity.* (Boston: Page. 1937. Pp. 243. $2.50.)

SWANISH, P. T. *Trade disputes disqualification clause under the British Unemployment Insurance acts.* (Chicago: Univ. of Chicago Press. 1937. Pp. ix, 73. $1.)

WALSH, J. R. *C. I. O.: industrial unionism in action.* (New York: Norton. 1937. Pp. 293. $2.50.)

Arsenal of facts. (New York: Internat. Pubs. 1938. Pp. 126. 25c.)

Dominion of Canada: report of the department of labour for the fiscal year ending March 31, 1937. (Ottawa: H. M. Stationery Office. 1937. Pp. 98. 25c.)

Handbook of the trade union methods. (New York: Internat. Ladies Garment Workers Union. 1937. Pp. 96. 25c.)

Labour organization in Canada: twenty-sixth annual report for the calendar year 1936. (Ottawa: H. M. Stationery Office. 1937. Pp. 240. 50c.)

Labour's fair rent policy. (London: Nat. Council of Labour. 1937. Pp. 16. 1d.)

Machines and working hours: a pictorial presentation of facts on mechanization, working hours and the American standard of living. (Chicago: Machinery and Allied Products Inst. 1937. Pp. 15.)

Mergenthaler Linotype Company: report to stockholders on employee relationships, 1937. (Brooklyn, N.Y.: Mergenthaler Linotype Co. 1937.)

Minimum fair wage law. (Harrisburg: Pennsylvania Labor and Industry Dept. 1937. Pp. 38.)

National Labor Relations Board: decisions and orders. Vol. 2. *July 1, 1936-July 1, 1937.* (Washington: Nat. Labor Rel. Board. 1937. Pp. 1165. $1.75.)

National Mediation Board: third annual report, including the report of the National Railroad Adjustment Board. (Washington: Supt. Docs. 1937. Pp. 34. 15c.)

Profit-sharing and other supplementary-compensation plans covering wage earners. Stud. in personnel policy no. 2. (New York: Nat. Industrial Conf. Board. 1937. Pp. 22. $1.)

Regulation of contracts of employment of indigenous workers. 24th sess., rep. ii. (Geneva: Internat. Labour Office. 1937. Pp. 239.)

Report of the thirty-seventh annual conference of the Labour Party, Bournemouth, 1937. (London: Labour Party. 1937. Pp. 286. 1s. 6d.)

United Kingdom: twenty-second abstract of labour statistics of the United Kingdom (1922-1936). (London: H. M. Stationery Office. 1937. Pp. viii, 210. $1.10.)

Wharton assembly addresses, 1937. (Philadelphia: Univ. of Pennsylvania Press. 1937. Pp. 78. $1.)

Contains addresses on "Issues confronting the American Federation of Labor and the Committee for Industrial Organization," by George M. Harrison; "Where are the sit-down strike and the Committee for Industrial Organization taking us?" by George Sokolsky; "The objectives of the Committee for Industrial Organization," by Philip Murray.

Money, Prices, Credit, and Banking

Modern Banking. By Rollin G. Thomas. (New York: Prentice-Hall. 1937. Pp. xvi, 474. $3.80.)

Mr. Thomas had a twofold purpose: that the student might be given (1) such basic elementary information as is required for an intelligent approach to the banker-customer relationship and, (2) some knowledge of contemporary banking institutions and practices. To accomplish these two purposes the author has reduced the historical aspects to a chapter on the early banking system of the United States and one on the national banking system. As for money, that too has been as successfully avoided as is possible considering its logical affinity for banking.

Mr. Thomas recognizes the evolution of banking to its present complicated status whereby it has come to include strictly commercial banking, the acceptance of time and savings deposits and the problem of long-time investments, the taking on of fiduciary functions and, finally, the making of loans for the financing of durable consumers' goods. And while he does not specifically develop his book around this complicated fourfold aspect of modern banking, he has developed two good chapters on loans and discounts, one on bank investments, one on the bank's portfolio and another on trust companies, in which he discusses the trust department of the commercial bank.

There is no specific consideration of the modern tendency of the so-called commercial banks to purchase installment paper direct from its consumer-maker; hence the fourth and latest phase of banking evolution has not been given the place which it may have in subsequent editions. Neither does the author develop a philosophy of banking against which he appraises the modern tendencies and practices. In short his work is largely what he set out to make it, descriptive and explanatory.

As for certain specific features of the book, attention should be called to an excellent chapter on the guarantee of bank deposits in which the adequacy of an assessment of 1/12 of 1 per cent is questioned, ". . . unless very definite reforms can be instituted to improve banking practices. . . ." In the development of a very good chapter on bank assets, secondary reserves appear to be treated as synonymous with earning assets. Actually, they are not so treated, and this is fortunate; for the investments of a bank should be distinguished from its secondary reserves. Although the contrary position may be defended so long as the investments of a bank consist of federal issues which will be accepted as collateral for a loan up to their par value, at reserve banks, both are subject to change. Hence, a more definitive conception of secondary reserves would be helpful.

The author takes the position that "legal reserves constitute funds which add little, if anything, to the direct liquidity of a bank." In effect, he holds that the well-managed bank does not require the compulsion of a legal reserve and the poorly-managed bank cannot use its legal reserve except as a last line of defense. In general Mr. Thomas keeps in mind the fact that "the banker is a business-man, and as such normally sees no reason why funds of the bank should not be at his disposal. In other words no well-defined professional attitude exists among American bankers." This is of course, the beginning of wisdom in understanding American banking.

Mr. Thomas appears to take the position that the bond account may become a permanent part of a bank's assets, provided its secondary reserve is adequate. If this view is correct, then it may be said that it is also sound and progressive (p. 157). In the course of his treatment of "The bank's portfolio," meaning all earning assets, there is a discussion of liquidity as contrasted with shiftability in which the distinction is not slurred as is so often the case. However, much more could well have been said upon the effects of the extension of bank credit for the financing of fixed assets of industry even though this would have meant the inclusion of material on monetary economics.

One cannot so readily accept the view that the problem of elasticity of bank credit can be solved only by the retention of unused reserves in times of slack demand for bank credit (p. 189). Rather it would seem that the holding of adequate secondary reserves, properly spaced as to maturities, would provide a solution. But there is something to be said for the contention, in two good chapters on the federal reserve system, that ". . . true liquidity on the part of a reserve bank arises from its ability to require member banks to reduce rediscounts (or borrowings) at reasonable intervals." Tests as to eligibility did not mean much to Mr. Thomas even before Regulation A was recently revised.

Much more might be said about this excellent and interesting text. It

deserves wide use, for it has the essential qualities. It is clearly written, the scholarship is sound and there is a unity of treatment which is in itself an advantage.

E. A. Kincaid

University of Virginia

A Study of the Capital Market in Post-War Britain. By A. T. K. Grant. (London: Macmillan. 1937. Pp. xx, 320. $4.50.)

Mr. Grant's book, although it deals with Great Britain, is also of timely interest to students in the United States; for it deals to a large extent with developments, trends, and policies which are being actively discussed in this country.

The book is logically divided into four parts. The first part, "Finance and enterprise," is a careful analysis of the relationship between the cost of money, the rôle of the banks, and business conditions. After an exhaustive survey the author reaches the sound conclusion "that the powers of the banking system to control economic activity, though important, are strictly limited." This has been conclusively proved in Great Britain, and in the United States.

The second part, "The development of the monetary policy" is an interesting discussion of British financial policy since the end of the war. Prior to 1931, Great Britain's policy was international in scope; and efforts were directed to improving economic conditions throughout the world. Under such circumstances it was only natural that the movement of the pound sterling should play an important rôle in the policies of the Bank of England as well as of the banking authorities. The year 1931 marked a break in British economic policy; and since then more emphasis has been laid on conditions prevailing at home. The establishment of the Equalisation Account relieved the Bank of England of the necessity of being guided by international events and made it possible for it to devote its attention almost exclusively to domestic credit policies. The capital market also reflected this vital change. Whereas during the pre-war period and also partly during the post-war period prior to 1931, foreign loans played an important rôle in the British capital market, since 1931 such loans have practically disappeared.

The third part, "The long-term capital market," discusses interestingly the developments of this market during the post-war period. Perhaps the most valuable sections, chapters 12 and 13, deal with the financing of the "fringe" of enterprise and investment in housing and agriculture, respectively. Most of the material in these two chapters is new and will receive careful attention in the United States, where the problem of financing this type of enterprise has become particularly acute.

The last part states the problem and outlines the future prospects. The

author reaches the conclusion that the state is bound to play a much more important rôle in the capital and money markets than the private investor, a conclusion which applies to the United States as well as to Great Britain. The present volume brings up to date the study of Frederick Lavington, *The English Capital Market,* which deals with conditions existing just after the war. Its importance lies not merely in the descriptive material which gives the reader an accurate explanation of the money-market machinery, the channels of savings and methods of financing, but also in the critical analysis of the various monetary forces at work today.

MARCUS NADLER

Institute of International Finance

NEW BOOKS

ALBERTI, M. *Vicende di valute e dottrine monetarie nella monarchia Austro-Ungarica fino al 1914: la teoria statale della moneta e la realtà economica.* (Rome: Rassegna Monetaria. 1937. Pp. 109. L. 20.)

ARNOLD, A. Z. *Banks, credit, and money in Soviet Russia.* (New York: Columbia Univ. Press. 1937. Pp. xxiii, 559. $4.)

The author of this book deserves the gratitude of students of monetary history, as well as of the those interested in the present functioning of soviet institutions, for assembling so large an amount of factual material and placing it at the disposal of those who, like the reviewer, are unable to read Russian.

Included among the exhibits also are some samples of the lunacies of which soviet "monetary theorists" have been capable. The author has no difficulty in demolishing these extraordinary propositions. It is to be regretted, however, that a book so strong on the factual side should itself be marred by occasional evidences of weakness in theoretical analysis. These evidences range from simple slips, such as the common implication that bimetallism involves an undertaking to exchange one metal *for the other* at a fixed ratio at the mint (p. 176), through a shaky treatment of such matters as the rôle of "confidence in a country" in the determination of the foreign exchange rate under irredeemable paper (p. 51), and the operation of bank-rate as a cost-factor (p. 248), on to veritable howlers. We are told, for example, that if a country "devaluates its currency by 50 per cent, it will have to export *double* that quantity [of commodities which it exported before devaluation] in order to pay for the same [quantity of] imports" (p. 238).

These errors, however, are not, as a rule, essential to the author's explanation of the main course of events; and it would be a pity if readers were dissuaded by such instances from consulting a book into which has clearly gone much disinterested labor, and which is characterized by an obvious effort to provide as unbiased an account as is humanly possible.

ARTHUR W. MARGET

BRADFORD, F. A. *Money and banking*. 4th ed. (New York: Longmans Green. 1937. Pp. xii, 852. $3.75.)

Treatment brought down to date; rearrangement of certain chapters.

CANTWELL, T. W., editor. *The banking law of the State of New York: constituting chapter 2 of the consolidated laws, chapter 369, laws of 1914, including*

all amendments to the close of the regular session of the 1937 legislature. (Albany: Lyon. 1937. Pp. 441.)

CORNS, M. C. *Better bank management.* (Cambridge, Mass.: Bankers Pub. Co. 1937. Pp. 76. $1.)

DELYNDEN, R. A. *The curse of credit.* (London: Longmans Green. $4.)

DOMKE, M. *International loans and the conflict of laws: a comparative survey of recent cases.* (London: Grotius Society. 1937. Pp. 21.)

Deals with the gold clause.

DONALDSON, J. *The dollar: a study of the "new" national and international monetary system.* (New York: Oxford Univ. Press. 1937. Pp. xix, 271. $3.75.)

DORAX. *L'or et la guerre ou le franc et les prix.* (Paris: Alcan. 1937. Pp. 72. 8 fr.)

EINZIG, P. *The theory of forward exchange.* (New York: Macmillan. 1937. Pp. 541. $7.50.)

————. *Will gold depreciate?* (New York: Macmillan. 1937. Pp. xiv, 178. $2.)

GAYER, A. D., editor. *The lessons of monetary experience.* Essays in honor of Irving Fisher. (New York: Farrar and Rinehart. 1937. Pp. xii, 450. $3.50.)

The essays in this volume have been contributed by academic scholars, practising bankers and government officials, who thus join in honoring Professor Fisher on the occasion of his seventieth birthday. Fourteen countries from many parts of the world are represented by twenty-two essayists in this symposium on monetary experience and management. The editor of the volume is senior economist with the board of governors of the federal reserve system. Governmental experience in the United States is well represented by Marriner S. Eccles, chairman of the board of governors of the federal reserve system; John H. Williams, vice-president of the Federal Reserve Bank of New York; James H. Rogers, special advisor to the President, and Alvin H. Hansen, formerly economist in the State Department at Washington. In addition, the United States is represented by Professor James W. Angell of Columbia University.

Although many monetary experts of high standing are found in the list of contributors from foreign countries, space is not available for discussion of their opinions. Students of monetary experience will read the volume with interest and profit. Its appearance is a fitting tribute to the economic services and far-reaching influence of Professor Fisher. His portrait is included and also a biographical sketch and a bibliography of his economic writings.

WILLIAM H. GLASSON

GRAHAM, B. *Storage and stability: a modern ever-normal granary.* (New York: McGraw-Hill. 1937. Pp. xviii, 298. $2.75.)

GRAS, N. S. B. *The Massachusetts First National Bank of Boston, 1784-1934.* (Cambridge: Harvard Univ. Press. 1937. Pp. xxiv, 768. $5.)

GRUCHY, A. G. *Supervision and control of Virginia state banks.* (New York: Appleton-Century. 1937. Pp. ix, 329. $3.50.)

This study is somewhat more ambitious than the title suggests, as considerable attention is devoted to the philosophy and development of state banking regulation in the United States. With respect to regulation in Virginia, the analysis proceeds logically from an examination of the constitutional and statutory bases of control to the technical and procedural aspects of banking

supervision. Since the statutory basis of control in Virginia has lagged behind the recommendations of the bankers (pp. 67-71, 273) and the supervisory authorities (pp. 73, 275), one is prepared for the conclusion that banking supervision has been relatively lax as compared with regulation in certain states with respect to the chartering of new banks, the supervision of loans and investments, the maintenance of a satisfactory banking personnel, the correction and improvement of weak banks, and the administration of banking receiverships (pp. 301-302). The author analyzes the recent improvements in the banking code and suggests further changes which would elaborate the supervisory organization, broaden the area of administrative control, and presumably increase the technical and procedural efficiency of the banking authorities.

There may be substantial agreement with most of the analysis and recommendations, but the supporting evidence is at times inadequate partly because of the inaccessibility of essential data in the files of the Commissioner of Banks. Specifically, bank mergers are treated almost wholly as pathological phenomena; the analysis of bank failures, in spite of the admirable chapter on the failure of the American Bank and Trust Company, is not as complete as it might be; and there is a recurrent tendency deductively to impute to the banking situation in Virginia conditions revealed by analyses in other states. Despite these reservations, the author has made a substantial contribution to the literature of state banking regulation and supervision.

JOHN B. WOOSLEY

HILLS, J. W. *Managed money.* (London: Allan. 1937. Pp. 150.)

KILBORNE, R. D. and WOODWORTH, G. W. *Principles of money and banking.* 4th ed. (New York: McGraw-Hill. 1937. Pp. xix, 513. $3.50.)

Dr. Woodworth, in preparing the fourth edition of Professor Kilborne's text, has endeavored to preserve the strongest features of his earlier work. However, the recent sweeping monetary and banking changes have required a thorough revision. Twenty-three chapters are practically new. The number of pages in the new addition is less by 78 than in the old. A short bibliography follows each chapter in the new edition and thus makes up for the omission of all such material from the old.

The new edition gives increased emphasis to commercial banking, a fact which is supported by a chapter on "Bank reserves." There follows another entitled "Bank loans and investments" in which the secondary reserve of a bank is too briefly discussed, considering its importance for the purposes of the revised edition. Thus, United States securities are included without explanation of the necessity of excluding the long maturities. Neither is there explanation of the function and importance of secondary reserves.

The most marked changes in the new edition are found in the treatment of the value of money. Dr. Kilborne developed three chapters on this subject but Dr. Woodworth finds one sufficient. The quantity theory is presented with reference to the cash-transactions approach and the cash-balances approach. This is an improvement over the treatment in the old edition which gave evidence of much careful thought on the part of Dr. Kilborne.

E. A. KINCAID

KONKLE, B. A. *Thomas Willing and the first American financial system.* (Philadelphia: Univ. of Pennsylvania Press. 1937. Pp. xii, 237. $3.)

LANGSTON, L. H. *Bank accounting practice.* (New York: Ronald. 1937. Pp. xiii, 532. $5.)

Dr. Langston has written a book which is not only of technical interest to bankers and accountants, but which should be of help to economists in understanding the practical operation of a bank. The approach is through the transactions and routines of the bank considered departmentally. Even from the point of view of the banking student, the journalized debit and credit entries so necessary to the accountant serve as clarifying summaries of the activities of the operating divisions. Chapters on bank expense and costs, financial statements and analysis of financial data add to the value of the book.

W. P. FISKE

LÉON, R. *Money and trade.* (Princeton: Princeton Univ. Press. 1937. Pp. xi, 69. $1.50.)

This slim volume of eight essays has as its main thesis a condemnation of managed currencies, especially their external management which is conducted by manipulation of exchange rates. External management, while presumably bettering the position of one currency, adversely affects the price structure of other countries, and this through no act or desire of their own. Moreover, exchange depreciation and uncertainty hamper international trade. Money management makes money the ruler of trade and not the auxiliary or servant of trade, which it should be when there is "a free money system" with an internationally accepted common denominator.

Mr. Léon is likewise very critical of the Gold Reserve and the Silver Purchase acts of 1934 and the price of $35 per ounce which the United States is paying for gold. This "arbitrary" price has led to dehoarding and increased production of gold and a tremendous flow of the unwanted metal to our shores. To prevent a rapid rise of our price level, the government has had to borrow funds and sterilize the unwanted gold. "The very linking of the dollar to gold is evidence of our desire to achieve currency stability"; but the experience should have "taught that no nation alone can monetize any metal, and that any attempt single-handed to do so must result in complete disillusion" (p. 41).

The immediate corrective of the evils of manipulated exchanges and our artificial price for gold is the divorcing of the dollar from gold. Other currencies now tentatively tied to gold would also free themselves. Without gold currencies in which to operate, currency managers will find the risks of management so increased that "they will never accept [such a situation as a permanent one]. Rather than so much as consider it, they will abandon currency management and make ready to discuss the immediate restoration of an international system of money" (p. 56).

The international system that Mr. Léon thinks should be adopted is bimetallism. His statement or argument favoring bimetallism is brief and wholly unconvincing.

H. B. DOLBEARE

LUTHRINGER, G. F., CHANDLER, L. V. and CLINE, D. C. *Money, credit and finance.* (Boston: Little Brown. 1938. Pp. x, 379. $1.40.)

OTTEL, F. *Bankpolitik.* (Jena: Fischer. 1937. Pp. vii, 184. RM. 8.50.)

RAE, P. M. *The £ s. d. of national defence.* (London: Hodge. 1937. Pp. xvi, 199. 6s.)

From beginning to end this book is a vigorous, almost violent plea for economic and financial planning. Dr. Paul Einzig sets the tone in his foreword: "Orthodox economists can still think only in terms of their petty bank-rate theories, and continue to urge the return to *laissez-faire* without even taking the trouble to attempt to reconsider their theories and doctrines in the light of the vital consideration of national defence" (p. viii).

The Germans and Italians do these things better, Miss Rae maintains. They *plan.* "Everything is worked according to schedule." The Germans even have a word for it, *Wehrwirtschaft.* The author plunges with flaming sword through the finance of rearmament: "There is everything to be said in favour of both excess-profit duty and a tax on capital appreciation" (p. 24)—Americans please take notice; the price level and exchanges rates: "Once it was realized in Washington that London had made up its mind to depreciate sterling with or without American consent, President Roosevelt and Mr. Morgenthau would in all probability become less rigid in their attitude towards the sterling-dollar rate" (p. 94); industrial problems of national defence: "It has become only too painfully evident that if these supermen [Captains of Industry] are allowed a free hand to run the economic system of the world, they are apt to make a thorough mess of it" (p. 130); and a number of related problems, slashing right and left at the muddlers-through as she passes.

It is an odd little book; fantastic yet realistic; amateurish yet sophisticated; anti-Hitler yet fascist in spirit.

ALZADA COMSTOCK

SAROW, F. *Offenmarkpolitik zur Konjunkturregelung: Erfahrungen in England, den Vereinigten Staaten und in Deutschland.* (Munich: Duncker und Humblot. 1937. Pp. 111. RM. 4.20.)

SUTHERLAND, C. H. V. *Coinage and currency in Roman Britain.* (New York: Oxford. 1937. Pp. 210. $3.50.)

THOMAS, R. G. *Modern banking.* (New York: Prentice-Hall. 1937. Pp. 490. $3.80.)

WALKER, J. R. *Bank credit as money: its hazards and their control.* (New York: Harper. 1937. Pp. 158. $2.)

The author "believes that he has made clear for the first time the economic principle involved in bank credit inflation" (p. 139). While there is no specific statement as to just what this principle is, the general tenor of the argument seems to be that bank credit is innocuous when confined to loans against short-term self-liquidating commercial paper but that it is highly inflationary when used to acquire assets of longer term. In the one case it is said to be quickly "transmuted into income" and retired. In the other, it remains outstanding long after it is similarly "transmuted," and so drives prices upward.

Thus far the argument seems remarkably like that of the proponents of qualitative control of bank credit but Mr. Walker gets into perhaps new, if somewhat obscure, territory when he proposes to nullify the allegedly *peculiar* inflationary effects of long-term bank loans and investments by a provision for the graduation of reserves according to the average maturity of the assets in a bank's portfolio. He appears to be convinced that varying degrees of inflation, caused by the purchase with bank credit of different types of assets, can be measured, and that they can be accurately compensated by a corresponding increase in reserve requirements. The maximum required reserve, nevertheless, would be 50 per cent whether or not this was compensatory.

In his attacks on the evils of our present banking procedure Mr. Walker is much shrewder and more convincing than in his positive proposals. It is perhaps significant that, after scoring a point against "planners" by noting that events stubbornly refuse to conform to predictions, he goes on, in the next paragraph but one, to a sweeping prediction of his own to the effect that it is inconceivable that new gold deposits will ever be discovered on a scale sufficient to affect appreciably the present value of that metal.

This book can be read with very great profit by all those who think that our existing banking system, even in principle, is satisfactory, but it offers less to those who would know how that system might be beneficially reformed.

FRANK D. GRAHAM

WILLETT, H. *Fertilizer prices and price indexes.* (Washington: Nat. Fertilizer Assoc. 1937. Pp. 40.)

Fourth annual report of the Federal Home Loan Bank Board, covering operations of the federal home loan banks, savings and loan division, the Home Owners' Loan Corporation, Federal Savings and Loan Insurance Corporation, for the period July 1 1935, through June 30, 1936. (Washington: Fed. Home Loan Bank Board. 1937. Pp. 144. 20c.)

Girard Trust Company: a century of financial activity, 1836-1936. (Philadelphia: Stern. 1936. Pp. 191.)

Michie on banks and banking: 1937 cumulative supplement for volumes 1-9. (Charlottesville, Va.: Michie Co. 1937.)

Ohio banking law, annotated, containing all amendments to June 1, 1937. (Columbus: Banks-Baldwin Law Pub. Co. 1937. Pp. 186.)

Quantity and cost budgets for 1, family of an executive; 2, family of a clerk; 3, family of a wage earner; 4, dependent families or children; prices for San Francisco, October, 1936. (Berkeley: Univ. of California, Heller Committee for Res. in Soc. Econ. 1936. Pp. 80. 40c.)

Public Finance, Taxation, and Tariff

Studies in Current Tax Problems. By CARL SHOUP and Others. (New York: Twentieth Century Fund. 1937. Pp. xxiii, 303. $3.50.)

Upon the completion of a construction project the contractor usually finds himself in possession of more or less material and equipment which has not been fully used up, although it was necessary to the project. So it is that the director of any ambitious research project, upon completion of his general report, finds himself the possessor of a number of memoranda covering special phases of the investigation, which were indispensable to the preparation of the principal report but are too long or otherwise unsuitable for inclusion in it. In this way Dr. Carl Shoup, director of the Twentieth Century Fund's survey of taxation in the United States had to dispose of a large number of memoranda following the publication of his principal report, *Facing the Tax Problem,* which appeared early in 1937. In the volume under review are published six research reports containing material support for some of the conclusions stated in the principal report. Of the

remainder some have already appeared, and it is to be hoped that still others will appear in the form of articles or otherwise. The six published in this volume are of uneven scope; but the average quality runs high enough to warrant the hope that all yet unpublished will be available in print soon.

Ranking first, in value and scope as well as in sequence of appearance, is a study by Professor Mabel Newcomer entitled "Estimate of the Tax Burden on Different Income Classes." Ten hypothetical families with incomes ranging from $500 to $1,000,000 are made to serve as twenty families by the expedient of letting each of them live first in New York and then in Illinois. All the taxes *borne* by each family in each state, whether *laid* or *paid* in that state, are then applied; and the computation is carried to the point of showing the taxes borne by each family in percentages of their respective incomes. Interpolating, to fill in the gaps in the income series, one may visualize the tax system as a whole. He finds, as was to be expected, that although the system as a whole is progressive, especially in the upper brackets, it is regressive for those whose income is so low as to be fully or nearly exempt from income and death taxes. The function in the tax system of these two taxes is made very clear. In the absence of pertinent knowledge Dr. Newcomer of course had to rely on basic assumptions respecting such matters as occupation, source of income, ownership of property, apportionment of expenditures, and the shifting, incidence, capitalization, and apportionment of the several taxes on each family. The use of assumptions raises interesting questions. Is, for example, the showing that wage earners bear in taxes nearly twice as large percentages of their incomes as do the same income classes among farmers, descriptive of a fact? If so, in what sense if at all is the prevailing opinion that farmers are overtaxed valid? Or are the assumptions affecting these two, and possibly other classes, invalid? It is perhaps the greatest merit of this and other basic studies that they uncover clashes of conclusions, leading to further investigations, which in turn may uncover the facts. This study is one of a kind almost unknown in the United States, although familiar in Germany and in the United Kingdom.

The other five basic research studies can only be mentioned. The second is "A Comparison of Aggregate Burden of Federal Income Tax and State Income Tax in Eleven Selected States." The third is a brief study of "State Property Tax Rates, 1925-36." Somewhat more comprehensive in scope is the fourth, covering "Costs of Administering the Various State and Local Taxes." The fifth, "Estimating Income and Estate Tax Yields," is rather technical, as are also the first and the second. The sixth study covers "An Estimate of Federal, State and Local Expenditures, 1936-40" and is necessarily conjectural, as all forecasts must be. Two parts are appended, being a list of "Studies of State and Local Tax Systems, 1920-36" and a bibliography. The summary treatment here accorded all but Dr. New-

comer's study implies nothing in the way of inferior quality. The volume is a fine example of the work that can be done with adequately financed and staffed research.

JENS P. JENSEN

University of Kansas

Studies in Massachusetts Town Finance. By EUGENE E. OAKES. (Cambridge: Harvard Univ. Press. 1937. Pp. 237. $2.50.)

This book deals with "the significance of the relation between benefits and taxation in local finance" (p. 10). The author is concerned with a special formulation of the Benefit Principle—"that at least in the field of state and local finance an attempt should be made to collect the required revenue from people who benefit either personally or through their property from the services provided by the government agencies" (p. 5). The purpose is to discover from the financial histories of small Massachusetts towns the consequences of failure to achieve this kind of adjustment between benefits and taxation.

The nine towns included furnish a variety of episodes involving different manifestations of the same taxation-benefits problem—divisions of towns, rapid industrial or suburban growth, and the construction of private electric generating plants. The chief cause of the divisions (the formation of a new town from a portion of one or more parent units) was that the citizens of the newly-created towns could not obtain desired services from the original governments though willing to pay taxes for them. These separations resulted in diseconomies of multiplicity of units, over-specialized industrial towns lacking fiscal adjustability to depressions, excessive expenditures, financial strain, and even bankruptcy. In the cases of rapid suburban and industrial growths, the influx of population occasioned expansion of expenditures disproportionate to the rise of property assessments, bringing *net* increases in *tax burdens*. The erection of electric plants caused increased expenditures not required by the public utilities, and tax burdens upon consumers of electricity in excess of benefits.

An important "by-product" of the investigations is the conclusion that a predominance in a town of poll-tax payers whose tax burdens do not vary with appropriations will generally lead to excessive expenditures. The author found, however, that in some cases this tendency may be checked by the "despotic" influence of some family or individual.

The book is a valuable contribution to the literature of public finance. It not only explores a neglected field, uncovers rich sources of local data, and presents interesting generalizations, but demonstrates the advantages of the case method in this field. The reviewer hopes, with the author, that this venture may stimulate more case studies in the field.

Some reservations however seem advisable with reference to the kind of

tax distribution toward which the study seems to point. The author does not advocate a theory of justice in taxation, but the implications seem to be that the local revenue should be collected from the beneficiaries of local services. Such a policy is debatable and the author's evidence does not necessarily prove its desirability. Much consideration is today being given to the possibilities of control of expenditures by other means. Until we know more of these possibilities we are hardly warranted in concluding that sound local finance can be achieved only by more extensive use of beneficiary taxation.

K. M. Williamson

Wesleyan University

NEW BOOKS

Altman, G. T. *Introduction to federal taxation (1936 act).* (Chicago: Commerce Clearing House. 1936. Pp. x, 168.)

A lawyer's interpretation and explanation of the Revenue act of 1936.

Barone, E. *Le opere economiche.* Vol. III. (Bologna: Zanichelli. 1937. Pp. 533. L. 40.)

Barone's financial writings were originally published as three works, of which the important *Principles of Financial Economics,* although not the most recent work, is now reprinted as the final volume of his collected works. It embraces all the leading arguments that he advanced elsewhere, here fused into the most complete and balanced statement. The editor has not attempted to bring materials down to date or to revise the chapters in any respect.

Part 1 treats of incomes and the tax burden, the state's expenditures, non-tax income. Part 2 discusses taxes: the general theory, levies depending on income, on consumption, on transfers, finally the shifting of taxes. Part 3 discusses extraordinary income (with reference to the problems of the public debt), the budget, aspects of local finance, various tendencies of current finance, chiefly the vogue of the income tax and measures designed to meet cyclical depressions.

An appendix of 50 pages, not a part of the original work, reproduces subsequent pronouncements of Barone on the topic of war finance. This volume sustains the impression that Barone was not only an economist of sensitive and clear mind, but one of the most competent expositors of doctrine of his time in Italy.

R. F. Foerster

Carr, R. K. *State control of local finance in Oklahoma.* (Norman: Univ. of Oklahoma Press. 1937. Pp. xiv, 281. $3.)

Attempts to find a suitable division of governmental functions and powers between the state and its political subdivisions are met in many states, but rarely in such a colorful array of continuous experiments as characterize nearly the entire history of Oklahoma. In that state, more than elsewhere, the experiments seem to have been, if not blind, at least confused as to the goal to be attained. The attitude of the promoters, and many of the administrators of the control measures, toward the municipalities seems to have been that they have been and are incurably naughty and extravagant children, who "ought to be spanked and have their candy taken away from them." It is with these attempts of the state government to control the fiscal activities of the local governmental

units, with the formulation of a goal to be sought and ways of attaining it, that Carr is concerned.

Following an introductory chapter, in which is presented the economic and political background of Oklahoma, the author outlines the legislative, constitutional and statutory measures designed to curb, say, the municipal tax levies and bond issues; and he finds that, although these measures have been severe and vexatious, they have been largely ineffective. One chapter describes the administrative agencies for the control of the assessment of property—namely, the unique county excise board, the equally unique court of tax review, the tax commission, and the *ex officio* state board of equalization, and reveals them as being too many in number, overlapping, and for those reasons productive of delay and confusion. The excise board and the court of tax review are criticized in the two following chapters. The only administrative agency to receive nearly unqualified approval is, oddly enough, the attorney general in his *ex officio* capacity of state bond commissioner, doubtless largely because he has conceived his function and limited his activities to the task of assuring the legality, in the spirit as well as the letter of the law, of local bond issues. The state examiner and inspector, also a unique Oklahoma agency, receives some commendation because, on account of his remarkable personality, he has been able to effect his local reforms voluntarily. A brief chapter deals with indirect control through what is not but should become a system of state grants-in-aid. In the final chapter it is shown that "Oklahoma must choose" an advantageous combination of state administrative control and local legislative democracy, which will in any case involve a simplification of the state agencies for local financial control, and indeed a simplification of the entire governmental organization.

Apart from two cases of misspelling, one of them being of his own initials in the index, the reviewer found no technical defects in the book. It is a decidedly meritorious work of research in local public finance, painstakingly prepared and simply presented by an author showing sound judgment. It would be well to have a similar study made for each of a number of other states if not all of them.

JENS P. JENSEN

CHERENE, L. M., and others. *Guide to tax economy.* (New York: Tax Res. Inst. of America. 1937. Pp. 948. $12.85.)

CHU, P. *Der Staatshaushalt und das Finanzsystem Chinas.* (Leipzig: Buske. 1937. Pp. 133. RM. 3.75.)

COYLE, D. C. *Why pay taxes?* (Washington: Nat. Home Lib. Found. 1937. Pp. 192. 25c.)

EAGIN, F. O., editor. *Compiled Oklahoma tax laws, annotated, 1936.* (Oklahoma City: Oklahoma Tax Commission. 1936. Pp. xxxix, 926.)

FOX, C. J. *Over-all property tax limitation, with special reference to the Massachusetts $25.00 tax limitation proposal.* (Boston: Author, City Auditor. 1937. Pp. 71. 50c.)

GAMBLE, P. L. *Taxation of insurance companies.* Spec. rep. of the State Tax Commission no. 12. (Albany: State House. 1937. Pp. 195.)

GEBHART, J. C. *Payroll taxes and the deficit.* (New York: Nat. Economy League. 1937. Pp. 23.)

ISLEY, I. J. *Tax calculator tables: a comprehensive, ready-reference federal tax calculator.* (New York: Alexander Pub. Co. 1936. Pp. 313.)

JEWETT, F. E. *A financial history of Maine.* (New York: Columbia Univ. Press. 1937. Pp. 235. $3.25.)

KENDRICK, M. S. *The undistributed profits tax.* (Washington: Brookings Inst. 1937. Pp. 108. 50c.)

MOHUN and ELLIOTT. *The Revenue act of 1936, approved June 22, 1936, including the provisions of the Revenue act of 1935, approved August 30, 1935, amending prior revenue acts and the tax provisions of the Social Security act.* (Washington: B. S. Adams. 1936. Pp. xxvi, 192.)

PAUL, R. E. *Studies in federal taxation; taxation without misrepresentation; covering a restatement of the law of tax avoidance realistic valuation for federal tax-purposes; and suggested modifications of the bad debt provision.* (Chicago: Callaghan. 1937. Pp. xxxiii, 341. $5.)

SCHULTZ, A. D. *Tax reduction ahead: a review and forecast of the finances of the state government of Ohio.* 2nd ed. (Columbus: Ohio Chamber of Commerce. 1937. Pp. 35.)

SEKESON, L. *Distribution of property of decedents in the State of New York, with table of federal and New York estate tax rates.* 6th ed. (New York: Am. Surety Co. of N.Y. 1937. Pp. 67.)

SHULTZ, W. J. *Your taxes.* (Garden City, N.Y.: Doubleday. 1937. Pp. 280. $2.)

STEWART, P. W., and others. *The national debt and government credit: factual findings. A program of action by the Committee on Government Credit.* (New York: Twentieth Century Fund. 1937. Pp. 188. $1.75.)

VAN SANT, E. R. *The floating debt of the federal government, 1919-1936.* Stud. in hist. and pol. sci., ser. lv, no. 4. (Baltimore: Johns Hopkins Press. 1937. Pp. 88.)

WOLFE, S. H. *Inheritance tax calculations.* 2nd ed., rev. by LEE J. WOLFE, and WILLIAM M. CORCORAN. (New York: Baker Voorhis. 1937. Pp. 246. $10.)

An analysis of the effects of the processing taxes levied under the Agricultural Adjustment act. (Washington: Treasury Dept., Bur. of Internal Revenue. 1937. Pp. 111. 15c.)

Assessment principles and terminology. (Chicago: Nat. Assoc. of Assessing Officers. 1937. Pp. 166. $2.)

This volume is a report to the National Association of Assessing Officers by its Committee on Principles of Assessment Practice. The first part deals with assessment principles, the second with assessment terminology, and the third consists of a selected bibliography.

In the chapters in which assessment principles are discussed attention is given to methods by which the assessment of different types of property may be accomplished more effectively. The machinery for assessment and for review and equalization is critically analyzed with recommendations as to the best organization for each purpose. The chapters which deal with the assessment of different kinds of property suggest devices through the use of which effective assessment may be accomplished. No question is raised as to whether all types of property should be assessed, while there is a certain air of assurance that the adoption of the proposals will bring satisfactory results. This assurance is doubtless unwarranted in some cases, especially in the assessment of intangibles.

If assessment officials and writers would adopt the meaning assigned to the terms listed in the part dealing with terminology, a great deal of confusion would be avoided. The bibliography is well selected and will be helpful to any one who wishes to be informed on the problems of assessment.

MERLIN H. HUNTER

Chain-store tax laws: the full texts of the state chain-store tax laws as of November 15, 1937. (Chicago: Commerce Clearing House. 1937. Pp. 102. $1.)

Financial statistics of cities having population of over 100,000 fiscal year 1935. (Washington: Supt. Docs. 1937. Pp. viii, 175.)

Handbook of financial administration, Commonwealth of Kentucky. (Frankfort: Public Admin. Service. 1937. Pp. viii, 353.)

The 1936 Government Reorganization act of Kentucky carried toward completion the legislative part of a sound fiscal system of that state. It is tempting, but not entirely proper to dwell at length upon the excellent features of this reorganization, such as a department of revenue as substantially the only tax administrative agency, or the creation of the department of finance particularly with its division of accounts and control, as the central agency of fiscal control, or the establishment of a treasury as distinctly and solely a custodial agency. So also with some of the problems which the reorganization did not solve, such as the complicated and anachronistic county fee system of compensation of public employees. These matters are chiefly the background for the publication.

The book is more than a voluminous bookkeeper's manual. It is a treatise on the mechanics of fiscal affairs with application to Kentucky. It describes the fiscal procedure installed to make the governmental reorganization effective. The fiscal structure is described in the first two chapters, budgetary administration in the third, the character of the commonwealth funds in the fourth, the accounting system in the fifth, and financial statements and reports in the sixth. Then follow chapters on the accounting records, the encumbrance documents, the payroll procedure, and the handling of receipts and disbursements. Part 1 concludes with a chapter on state debt administration. Part 2, a single chapter, is devoted to the county fee system. Part 3 devotes three chapters to the various accounts within the respective funds. Part 4 briefly describes the state revenue system. Part 5 covers the organization and equipment of the pivotal division of accounts and control. Part 6 consists of a brief glossary of financial terms.

There is no index, but an extensive table of contents. Document and record forms abound. Four charts illustrate the organization structure of the two primarily fiscal departments and their divisions. The handbook is well done and so important is the content that every state ought to have an organization and a procedure as acceptable as, if not identical in form with, those presented.

JENS P. JENSEN

Highway user taxes. Highway user ser. no. R13. (Washington: Nat. Highway Users Conf. 1937. Pp. 54.)

How to reduce the undistributed profits tax. (New York: Alexander Pub. Co. 1937. Pp. 137.)

Naval expenditures 1936. (Washington: Supt. Docs. 1937. Pp. 82. 20c.)

Regulations 100, relating to employers' tax, employees' tax, and employee representatives' tax under Carriers Taxing act of 1937. Public no. 174, 75th Cong. (Washington: Treasury Dept., Internal Revenue Regulation. 1937. Pp. 48. 10c.)

Reports of the United States Board of Tax Appeals, volume 34, March 1, 1936, to October 31, 1936. (Washington: Tax Appeals Board. 1937. Pp. 1365. $3.)

State tax yield statistics: 1937. (New York: Tax Policy League. 1937. Pp. 52. $1.)

The purpose of this study is to make available for general use, as early as practicable after the close of the fiscal year, statistics on the yield of state taxes.

It is designed to avoid many of the delays incident to the publication of the more comprehensive studies by the Bureau of Census and the National Industrial Conference Board, which usually are not complete until a considerable lapse of time after the data are available. The study contains tables for each state showing revenue receipts classified according to kinds of taxes, and the amounts of each tax that are retained by the states and the amounts shared with local governments. There are also summary tables for each kind of tax, broken down according to states and according to the amount retained by the states and that shared with local governments. This data having been obtained by correspondence directly from the tax commissioners, auditors, and treasurers of the various states so early after the close of their fiscal years should prove of interest to students of public finance.

ROSCOE ARANT

Population and Migration

Migrant Asia. By RADHAKAMAL MUKERJEE. (Rome: Comitato Italiano per lo Studio dei Problemi della Popolazione. Ser. iii, vol. 1. 1936. Pp. xlv, 310. L. 30.)

The Comitato Italiano per lo Studio dei Problemi della Popolazione instituted a new series of publications (Series III) in order to give place to Professor Mukerjee's monograph. This series will be published in non-Italian languages, but with introductions in Italian.

If the Italian Committee has as its purpose the scientific study of population, it is at first blush difficult to understand why it has singled out this curious mixture of factual description and value judgments as the first of its monographs by foreign students. While it is probable that the Committee and its President, Dr. Gini, are in general sympathetic with Professor Mukerjee's sentiment for the breakdown of migration restriction and for the international control of raw materials, it is unlikely that they accept his Oriental point of view as objective or his wishful thinking as realistic. It is probable, therefore, that the work was selected for publication as an authoritative sample of what intellectual Asiatics think of the "unfair" distribution of the world's land and raw materials between the white races and the yellow and brown and of the discriminatory restrictions or exclusions which the white nations have erected against the immigration of Orientals. As an exemplification of these sentiments, Mukerjee's work has considerable value.

As a scientific study of the economics and politics of migration, little can be said for it. Mukerjee has a broad knowledge, gained, if one may judge by the book's lack of documentation, mainly from secondary sources of Asiatic migration, national migration policies, and labor conditions in the tropical and subtropical colonies controlled by the dominant European nations; but the careful student will check his factual statements. Broadly, however, and making due allowance for his sentiments, his wide survey

of world population distribution and migration is a contribution. The main features of the "problem" as he sees it are: the disproportional distribution of the world's population and of the world's wealth in land and natural resources; contrasts in standards of living; the increase of the Asiatic peoples, under the influence (sanitation, etc.) of western culture, to the saturation point; the political control by the white nations of huge land areas of low population density but of putatively high economic productivity; the alleged dependence of the industrial nations on the tropics for foodstuffs and raw materials; the non-adaptability of whites to tropical life and labor; the resentment of the Asiatics on being excluded from these low-density regions; and the consequent advisability, on economic grounds and grounds of world peace, of opening these restricted areas to Asiatic immigration.

Mukerjee continually reiterates the need of "scientific" world economics and a "scientific" solution of the world population problem, but he reveals little understanding of the import of the word scientific. There is tiresomely reiterative expression of his own feelings and value-judgments as to the "unfairness" of exclusion policies, the "artificial" nature of the white standard of living, the absence of "geographical finality" in the present distribution of races, the "right" of every country overpopulated by its own imprudence to dump its surplus numbers anywhere that there is "unutilized" land and anywhere that their low subsistence standard of living will enable them to compete with other laborers successfully, his conviction that the Oriental—especially the Indian—agricultural laborer is, with the possible exception of the Chinese, the best fitted to people the waste places, and finally his conviction that economic pressures will override political power and force the European and American nations to let down the bars.

Now, if there is a world population "problem" it is fundamentally much more a problem of psychology than of economics or politics. It is a problem of the attitudes and sentiments, not only of the masses of common people but of intellectual and moral leaders like Professor Mukerjee. Unless the Indian leaders can bring themselves to see that India's population problem is an Indian, and not a world, problem, it is mere wishful thinking on their part to suppose the problem will be solved. Only once in the entire book does Mukerjee mention birth control. Apparently the idea has never occurred to him that the solution of the Indian, or of the Japanese and Chinese, overpopulation problem is a reduction of population to some reasonable relation to the resources, natural and cultural, which these peoples can command in the territory they now possess. Nor does it occur to him to ask whether in the long run the standard of living of Orientals would be any higher were they permitted to horde into Australia, Canada, Africa, South America, and the United States. He does not see that with their

United States of America. Internat. law and relations, vol. 6, no. 13. (Washing-

present uncontrolled fertility, the Orientals wherever they might be would in a few generations multiply to the saturation point.

Even if we waive the "right" of peoples who have learned to check their reproductive impulses by a modicum of practical reason, to protect their own "artificial" standard of living from Asiatic competition, Mukerjee's notion of the relief to Oriental overpopulation which would result from the Asiatic settlement of Australia, South Africa, and other regions from which they are now excluded, is highly inflated and erroneous. To take the Australian booster's estimate of 450 million as the potential population capacity of Australia is to be merely gullible and to reveal complete ignorance of the literature of Australian climatology and resources. The same observation applies to his bland comparison of densities of 2,000 or 2,500 in certain small areas of Bengal with the average densities of the United States and Canada. Here is either ignorance or ignoring of the fact that the part of the United States between the Rocky Mountains and the Sierra-Cascade range, and indeed the whole vast area between the one-hundredth meridian and the California valleys, must continue to have a low density of population whatever the standard of living; and that the major portion of Canada consists of arid, rocky, boreal wastes that no people on earth could bring under cultivation.

Mukerjee is on safer ground when he argues for the opening of the tropics and subtropics to Asiatic immigration. And certainly no decent person will differ with him in his criticisms of past labor policies in the white-controlled tropical plantation colonies.

In his 40-page introduction Dr. Gini gives an admirable and not uncritical summary of Murkejee's matter, contrasts Murkejee's "thesis" with the Occidental, compares the idealistic with the realistic approach to the problem of international relations and concludes with a philosophy of international trade essentially mercantilist in principle.

A. B. Wolfe

Ohio State University

NEW BOOKS

Brown, F. J. and Slabey, J. S. *Our racial and national minorities: their history contributions and present problems.* (New York: Prentice-Hall. 1937. Pp. 898. $5.)

Dublin, L. I. and Lotka, A. J. *Twenty-five years of health progress: a study of the mortality experience among the industrial policyholders of the Metropolitan Life Insurance Company, 1911 to 1935.* (New York: Metropolitan Life Insur. Co. 1937. Pp. xi, 611.)

Gini, C. *Die Probleme der internationalen Bevölkerungs- und Rohstoffverteilung.* (Jena: Fischer. 1937. Pp. 28.)

Guillet, E. C. *The great migration: the Atlantic crossing by sailing-ship since 1770.* (New York: Nelson. 1937. Pp. 296. $4.)

Hazard, H. B. *Immigration and naturalization with special reference to the*

to the development of the principles of migration control now being applied in

United States of America. Internat. law and relations, vol. 6, no. 13. (Washington: Digest Press. 1937. Pp. 22. 75c.)

ISHII, R. *Population pressure and economic life in Japan.* (Chicago: Univ. of Chicago Press. 1937. Pp. xix, 259. $3.)

KUCZYNSKI, R. R. *Colonial population.* (New York: Oxford Univ. Press. 1937. Pp. xiv, 101. $1.75.)

In a convenient compilation containing four chapters the writer summarizes and criticizes the data upon total colonial population available in censuses or estimates and upon classifications by race and by continent of birth. A final chapter describes the condition of birth and death registration in the several colonies. The text, fortified with numerous footnotes, fills about one-third; the notes to the three main tables in the appendix fill the other two-thirds of the small volume. Like all Dr. Kuczynski's publications, this booklet is a thorough and competent piece of work, but is weakened by occasional cocksureness on debatable points. He declares, for example, "The actual population of a country can be ascertained [by which he means, I suppose, the population of a country can be ascertained exactly] only through an enumeration. . . . All figures obtained by other means . . . are estimates or guesses" (p.vii), and passes on without another word.

I would prefer to say: enumerations have been found to be the best practicable method of estimating population, and if carefully taken in a well organized country are probably within one per cent of the truth. The population can be ascertained exactly only by continuous registration of every birth and death, every arrival and departure, throughout an entire generation; but this theoretically best method remains impracticable. And so, imitating Dr. Kuczynski, I will pass on.

WALTER F. WILLCOX

MADGWICK, R. B. *Immigration into eastern Australia, 1788-1851.* (New York: Longmans Green. 1937. Pp. 282. $3.50.)

REUTER, E. B. *Population problems.* 2nd ed., rev. (Philadelphia: Lippincott. 1937. Pp. 515. $3.)

SCHMID, C. F. *Mortality trends in the State of Minnesota.* (Minneapolis: Univ. of Minnesota Press. 1937. Pp. 334. $3.50.)

TAFT, D. R. *Human migration: a study of international movements.* (New York: Ronald. 1936. Pp. xxvi, 590. $4.)

This book is primarily a sociological textbook on the so-called "problems" created by international migration and, being intended for American students, is concerned with problems precipitated by recent immigration into the United States. The author traces migration to the unequal distribution of economic resources and opportunity relative to that of numbers in the various parts of the world. Migration is thus an economic equilibrating process subject, however, to the influence of non-economic factors.

The author's emphasis is best suggested by his chapter distribution. To the ethical and legal questions involved in migration he devotes one chapter; to the history of migration and the quantitative and qualitative aspects of population growth, four; to nationalism, one; to the economic, biological, and cultural effects of migration, four; to the general immigration and assimilative policies in effect in the United States, five; to oriental migration in general and to the United States and to Mexican immigration into the United States, three;

BOSSARD, J. H. S. *Social change and social problems.* Rev. ed. (New York: Harper. 1938. Pp. 836. $3.50.)

BOSSARD, J. H. S. and WEAVER, W. W., editors. *The prospect for youth: designed*

to the development of the principles of migration control now being applied in the international sphere, four.

Although Professor Taft's treatise serves the purpose intended as well as, if not better than, any other such work now available, his discussion is open to criticism upon several grounds. These criticisms, however, are equally applicable to other treatises in the field. The tone of this discussion becomes wishfully pious at times. The legal and ethical principles underlying migration and the conditions that have given rise to these principles require more acute critical analysis than is here given. The treatment of problems associated with an "optimum" population is not adequately integrated with the evaluative discussion of migration policies. The interrelationships between the patterns of international movements of goods, raw materials, and capital equipment, and the patterns of movements of men require much more careful treatment, particularly in respect to their reciprocal effects.

JOSEPH J. SPENGLER

WORK, M. N., editor. *Negro year book: an annual encyclopedia of the negro, 1937-1938.* (Tuskegee Institute, Ala.: Negro Year Book Pub. Co. 1937. Pp. xiv, 575.)

Immigration laws, immigration rules, and regulations of January 1, 1930, as amended up to and including December 31, 1936. (Washington: Labor Dept., Immigration and Naturalization Serv. 1937. Pp. 216. 20c.)

Social Problems and Reforms

NEW BOOKS

ALLEN, R. G. D. and BOWLEY, A. L. *Family expenditure: a study of its variation.* (London: P. S. King. 1937. Pp. 153. 9s.)

ANDREWS, J. N. and MICHELS, R. K. *Economic problems of modern society.* (New York: Ronald. 1937. Pp. xvi, 798. $3.75.)

This volume presents a scholarly and interesting account of the problems of our contemporary public and private economies. Excess baggage, which generally confuses the reader or student and obscures the fundamental framework of the problems, has been consciously omitted. At the end of each chapter is a list of questions, intended to conform to the best practice in educational presentation and instruction. The authors appear to have succeeded admirably in the choice of their problems and the expositions and discussions of them. The historic approach is followed as a general rule.

T. N. FARRIS

BAGLEY, W. C. and ALEXANDER, T. *The teacher of the social studies.* (New York: Scribner's. 1937. Pp. xiv, 328.)

BEACH, W. G. and WALKER, E. E. *Social problems and social welfare.* (New York: Scribner's. 1937. Pp. 445. $2.)

BEAR, R. M. *The social functions of education.* (New York: Macmillan. 1937. Pp. xiii, 434.)

BENNETT, H. *More for your money: a buyer's guide. An informative manual and reference book on how to spend your money to the best advantage on food, clothing, fabrics and textile goods, cosmetics and toilet requisites, articles of domestic use, furniture and other furnishings for the home etc., etc.* (London: Spon. New York: Chemical Pub. Co. 1937. Pp. xii, 251.)

individual advantage, the author has written a history of war profits, with figures cited. He is not concerned with the condemnation of war, or with

BOSSARD, J. H. S. *Social change and social problems.* Rev. ed. (New York: Harper. 1938. Pp. 836. $3.50.)

BOSSARD, J. H. S. and WEAVER, W. W., editors. *The prospect for youth: designed to focus attention upon the problems of youth and to facilitate the intelligent consideration of these problems.* Annals, vol. 194. (Philadelphia: Am. Acad. of Pol. and Soc. Science. 1937. Pp. xii, 273. $2.)

BROWN, G. T. *Economic power in the United States.* Social action ser. no. 10. (New York: Paulist Press. 1937. Pp. 32. 5c.)

CALDWELL, O. W., and others. *Depression, recovery and higher education.* Report by Committee Y of the Am. Assoc. of Univ. Professors. (New York: McGraw-Hill. 1937. Pp. x, 543. $4.50.)

CAMPBELL, A. H., compiler. *Standards in social work fields, 1926-1936: a bibliography.* Lib. bull. no. 141. (New York: Russell Sage Found. 1937. Pp. 6. 10c.)

CHAFEE, J., JR. *State house versus pent house: legal problems of the Rhode Island race-track row.* Dorr pamph. no. 1. (Providence: Booke Shop. 1937. Pp. xxii, 165. $1.)

DODSON, L. S. *Living conditions and population migration in four Appalachian counties.* Soc. res. rep. no. iii. (Washington: U. S. Dept. of Agric. 1937. Pp. 152.)

DOLEZEL, K. *Gewerbepolitik und Industrie.* (Brünn: Rudolf M. Rohrer. 1937. Pp. 68.)

GREENBERG, L. S. *Nationalism in a changing world.* (New York: Greenberg. 1937. Pp. viii, 154.)

HATHAWAY, C. A. *The people vs. the Supreme Court.* (New York: Workers Lib. 1937. Pp. 16. 1c.)

HEGEMAN, W. *City planning housing.* Vol. II. *Political economy and civic art.* (New York: Architectural Book Pub. Co. 1937. Pp. xxii, 250-431.)

HORN, E. *Methods of instruction in the social studies.* Rep. of Commission on Soc. Stud., Am. Hist. Assoc., part 15. (New York: Scribner's. 1937. Pp. 542. $2.50.)

HUNTINGTON, E. H. and LUCK, M. G. *Living on a moderate income: the incomes and expenditures of street-car men's and clerks' families in the San Francisco Bay region.* (Berkeley: Univ. of California Press. 1937. Pp. xiv, 206. $2.)

JANZEN, C. C. and STEPHENSON, O. W. *Everyday problems in economics.* (New York: Silver Burdett. 1937. Pp. ii, 158. 60c.)

A workbook. Contains exercises of the completive type, multiple-choice type, and true-false type.

KLEIN, P., and others. *A social study of Pittsburgh: community problems and social services of Allegheny County.* (New York: Columbia Univ. Press for the Social Study of Pittsburgh and Allegheny County. 1938. Pp. xxviii, 958. $4.75.)

KRONENBERG, H. H., TRYON, R. M., and NUTTER, H. E. *Pamphlets on public affairs for use in social-studies classes.* Bull. no. 8. (Cambridge: Nat. Council for the Soc. Stud. 1937. Pp. 80.)

LEWINSOHN, R. *The profits of war through the ages.* Translated from the French by GEOFFREY SAINSBURY. (New York: Dutton. 1937. Pp. 287. $3.)

Beginning with Julius Caesar and ending with the modern corporation, with due space given to the Fuggers, Wellington, the Rothschilds, the House of Morgan, and all other notables who have known how to turn a war to their

reference to a group of recent European writers. (New York: McGraw-Hill. 1937. Pp. xii, 817. $6.)

individual advantage, the author has written a history of war profits, with figures cited. He is not concerned with the condemnation of war, or with putting men and companies in the pillory; the reader has no need to defend himself against propaganda on this emotionally overcharged subject of war, for the book is calm history and analysis.

Who profits financially by war? Mr. Lewinsohn finds that the answer to this question changes with the passage of time. The schedule is approximately as follows:

From earliest times to 1815—the generals
From about 1400 to 1917—the bankers
From about 1500 to the present—armament firms
From about 1600 to the present—the "contractors"
From about 1700 to the present—speculators

This outline is not rigid. Hindenburg and certain British generals benefited from the World War, for example; and the Morgan firm certainly made its profits in the same war. In the main, however, the temper of the times now regards generals as specialists to be rewarded according to their skill. As for the bankers, the author thinks that the governments will continue to replace them in the financing of wars, as did the United States in 1917-18, and Italy in 1935.

The other three groups, however, continue to grow wealthy in a civilization which permits war. Mr. Lewinsohn points out that they all benefit more by keeping alive the fear of war than by the actual state of warfare. The latter is likely—indeed, is almost certain—to limit their world-wide operations. So long, however, as the munition makers, contractors, and speculators can play one nation against another, they fatten on human fear. They are true internationalists, for no puny patriotism prevents their turning a penny in supplying goods to the enemy.

The historical research which has gone into the preparation of this study of war profits makes the book illuminating, if grim, reading. Mr. Sainsbury's translation is excellent.

James G. Leyburn

Lippmann, W. *An inquiry into the principles of the good society.* (Boston: Little Brown. 1937. Pp. xxx, 402. $3.)

McIsaac, A. M., Modlin, G. M. and Luthringer, G. F. *Industry, trade and agriculture.* (Boston: Little Brown. 1937. Pp. vi, 486.)

McMahan, C. *Social growth: a study of the ecologic, psychologic, economic and socio-political development of human society.* (New York: Galleon Press. 1937. Pp. 154. $2.)

Milchrist, E. H. *State administration of child welfare in Illinois.* (Chicago: Univ. of Chicago Press. 1937. Pp. 141. 75c.)

Nell-Breuning, O. von. *Reorganization of social economy: the social encyclical developed and explained.* English ed. prepared by Bernard W. Dempsey. (New York: Bruce Pub. Co. 1937. Pp. xiii, 485.)

Nelson, H. U. and Nelson, M. L. *New homes in old countries.* (Chicago: Nat. Assoc. of Real Estate Boards. 1937. Pp. 123. $1.25.)

O'Brien, E. J. *Child welfare legislation in Maryland, 1634-1936.* (Washington: Catholic Univ. of America. 1937. Pp. 375. $2.)

Parsons, T. *The structure of social action: a study in social theory with special*

The reviewer is still intrigued with the significance of the statement (p. 623) that "health, teeth, education, and comforts are sacrificed" as a result of the

reference to a group of recent European writers. (New York: McGraw-Hill. 1937. Pp. xii, 817. $6.)

PITKIN, W. B. *Careers after forty.* (New York: McGraw-Hill. 1937. Pp. xv, 273.)

PLATT, F. L. *Changing rural America.* Vol. 3, no. 2. (New York: Social Action. 1937. Pp. 31. 10c.)

PORTER, K. H. *State administration.* (New York: Crofts. 1938. Pp. xi, 450. $3.50.)

Contains chapters on financial administration, the budget system, public welfare, agriculture, public utilities and transportation, and business and labor.

READ, L. E. *The romance of reality.* (New York: Dodd Mead. 1937. Pp. xiv, 169. $2.)

REISS, R. L. *British and American housing.* (New York: Nat. Public Housing Conference. 1937. Pp. 110. $1.09.)

ROSENFIELD, I., and others. *Housing and town planning in the Soviet Union.* Res. bull. vol. 2, no. 5. (New York: Am. Russian Inst. 1937. Pp. 12. 10c.)

SALOMON, A. *Education for social work: a sociological interpretation based on an international survey.* (New York: Russell Sage Found. 1937. Pp. 271. $3.)

SCHMIDT, E. P., editor. *Man and society: a substantive introduction to the social sciences.* (New York: Prentice-Hall. 1937. Pp. xv, 805. $5.)

Eleven social scientists from the University of Minnesota, with the aid of two "outsiders," present a "substantive introduction to the social sciences" in about 800 pages and 16 chapters. The book is designed for orientation courses and aims to "acquaint the reader with the core of knowledge in each of the social sciences."

The topics treated are: sociology and culture; social institutions; social anthropology; social psychology; psychology and some of its applications; modern criminology; history; human geography; elements of political science; popular participation in government; the machinery of government; the economics of price; the distribution of income; economic security; causal relationships and their measurement; and social valuation.

The authors indulge in no noticeable writing down to the so-called college level. Pedantry is absent and an odd uniformity of humor enlivens the pages and should heighten the interest of the students. Such samples should lead to an increase in demand for further course work in these fields of knowledge.

Nevertheless, there is no sustained effort to show the interrelations of the social sciences; there is little synthesizing of the various disciplines. A few footnotes of cross reference are undoubtedly supplied by the editor. Professors Monachesi, Kirkpatrick, and Hartshorne in their respective stints on sociology, political science and geography do address themselves to this matter of interrelationships but otherwise synthesis is lacking.

The economist editor permitted a preponderance of pages to sociology—approximately one-third of the book. History, sometimes called the "father of the social sciences," uses the fewest pages (16). Political science, economics, psychology and geography follow in that order in terms of pages and emphasis. Only 150 pages are required to give the gist of economics which, in the larger universities at least, has more courses and more personnel devoted to it than any of the other disciplines.

A case for the rearrangement of the chapters could be made. The last two ought to come at the beginning of the text following a general introduction to the scientific study of man in society.

deliberately to create attitudes that make possible higher forms of collective

The reviewer is still intrigued with the significance of the statement (p. 623) that "health, teeth, education, and comforts are sacrificed" as a result of the inequalities of income. Furthermore, it seems to be a value judgment when in a footnote (p. 628) the editor says of Chamberlin's *The Theory of Monopolistic Competition,* "This is perhaps the most important book in economic theory since 1900."

Nevertheless, this text is well done; its typography is excellent; and it is well indexed. It is undoubtedly an improvement upon the syllabus method in orientation courses. If the student who uses this text takes no further courses in the social sciences he ought to leave college with a better understanding of these studies than many graduates who have been exposed to only one—history, for example. On the many whose collegiate life is short it ought leave an imprint of all of the social sciences.

ALBERT T. HELBING

SEYMOUR, H. *When clients organize.* (Chicago: Am. Public Welfare Assoc. 1937. Pp. 38. 50c.)

"Unemployment relief, from its earliest days, has been paralleled by organization among the needy unemployed population. Every large city, most small cities and towns, practically all states, even the national area, have witnessed the growth of relief pressure groups. More recently, pressure organizations have spread to the social security categories. When the complete story of relief and assistance is written, such client organizations, known to administrators through the grievance committee, the client delegation, the protest demonstration, hunger march, or work relief strike, will have a place in it.

"The present study attempts three things: an account of organizational development; an analysis of organization relationships with public authorities; an evaluation of client pressure groups as a factor in administrative and legislative policy."

SHAFER, K. *A basis for social planning in Coffee County, Alabama.* Soc. res. rep. no. vi. (Washington: U. S. Dept. of Agric. 1937. Pp. 48.)

SIGERIST, H. E. *Socialized medicine in the Soviet Union.* (New York: Norton. 1937. Pp. 378. $3.50.)

TAYLOR, H. *Contemporary problems in the United States.* 1936-37 ed. Vol. II. (New York: Harcourt Brace. 1937. Pp. xii, 504.)

TEAD, O. *The case for democracy, and its meaning for modern life.* (New York: Association Press. 1938. Pp. 130. $1.25.)

VALK, W. L. *De beheersching der wereldeconomie: een onderzoek betreffende de voorwaarden van stabiele welvaart en wereldvrede.* (The Hague: Uitgeversmaatschappij De Struisvogel. 1937. Pp. 170.)

This study of a planned world economy aims at stabilized welfare and world peace based on a program of work for workers, security for investors, centralized control with a maximum of freedom, peace and good will among the nations and welfare for all.

The author rejects the economic determinism of Marx as well as the self-operating economics of old, laissez-faire liberalism. He recognizes the importance of human institutions as both cause and effect of human behavior and believes that through changed institutions human relationships may be improved. New institutions that are adapted to new needs and new conditions must be developed to replace such older institutions as are impeding progress. Group consciousness and a feeling of social responsibility must be built up

relate themselves to the economic process. No longer a matter of "treatment

deliberately to create attitudes that make possible higher forms of collective life.

Where government rests on force, dictators will assume control in these days when the need of control is so generally felt. But in free democratic communities a higher form of leadership is called for, one that is self-effacing, self-controlled, articulately idealistic but not blind to the limitations of reality. Democracy must strive for social regeneration on a high spiritual plane that the forces of prejudice, egotism, lust for power and revenge may be overcome and an exalted idealism may prevail. Since the causes of our economic and social ills are psychological as well as material and technical, those who would plan for a better world must not restrict themselves to a materialistic approach.

The author does not minimize the difficulties of his task nor does he look for immediate spectacular results but he has faith in attacking the problems democratically. He recognizes the rights of the individual and believes that these rights should be interfered with only when clearly demanded by social interests. He believes it possible for men of good will to solve the problems along democratic lines; and without good will the problems are insoluble.

In this spirit are discussed such questions and problems as the causes of the depression, technological unemployment, control of investments, national and international monetary policies, control of production and many international factors involved. It is recognized that some factors can be controlled and that others cannot; but the uncontrollable factors may have their unfavorable effects reduced to a minimum. The author does not hesitate in requiring political control over economic life, but control in a spirit of understanding, sympathy, patience and tolerance.

R. S. SABY

WESLEY, E. B. *Teaching the social studies: theory and practice.* (Boston: Heath. 1937. Pp. 652. $2.80.)

WYAND, C. S. *The economics of consumption.* (New York: Macmillan. 1937. Pp. xiii, 565.)

The American National Red Cross: annual report for the year ended June 30, 1937. (Washington: Am. Nat. Red Cross. 1937. Pp. 179.)

Democracy in transition. By a group of social scientists in the Ohio State University. (New York: Appleton-Century. Pp. 356. $2.50.)

Financial survey of urban housing. (Washington: U. S. Dept. of Commerce. 1937. Pp. 1270. $3.25.)

Group hospitalization: a report of experiences. (Chicago: Am. Medical Assoc., Bur. of Medical Econ. 1937. Pp. 296.)

Housing: to create a United States Housing Authority, hearing before the Committee on Education and Labor, Senate, 75th Cong., 1st sess., on S. 1685, Apr. 14, 15, and May 11, 1937. (Washington: Supt. Docs. 1937. Pp. 231. 20c.)

Information as to the conditions and cost of living in the colonial empire. 3rd ed. (London: H. M. Stationery Office. 1937. Pp. 223. 3s. 6d.)

Peaceful change: an international problem. A symposium. (New York: Macmillan. 1937. Pp. 193. $2.50.)

Contains two chapters on "The economics of territorial sovereignty" by L. C. Robbins and "The economic bases of revisionism" by T. E. Gregory.

Proceedings of the national conference of social work. (Chicago: Univ. of Chicago Press. 1937. Pp. xi, 699. $3.)

With the increasing insistence social work aims, objectives, and technique

relate themselves to the economic process. No longer a matter of "treatment routines," social work is fully aware of the economic and political implications of the times. Future trends can be adduced from a perusal of the discriminating collection of 60 papers culled from the 64th annual session held in Indianapolis.

EDWIN S. BURDELL

The relation of nutrition to health, agriculture and economic policy: final report of the Mixed Committee on the League of Nations. (Geneva: League of Nations. 1937. Pp. 327.)

Report of the commissioner for the special areas in England and Wales for the year ended 30th September, 1937. (London: H. M. Stationery Office. 1937. Pp. 209. $1.10.)

Report of the commissioner for the special areas in Scotland for the period 7th July, 1936, to 31st August, 1937. (Edinburgh: H. M. Stationery Office. 1937. Pp. 76. 45c.)

Rugged individualism. Soc. action ser. no. 2. (New York: Paulist Press. 1937. Pp. 31. 5c.)

Social security in the United States, 1937. (New York: Am. Assoc. for Soc. Security. 1937. Pp. 215. $2.)

Youth: a world problem, study in world perspective of youth conditions, movements, and programs. (Washington: Nat. Youth Admin. 1937. Pp. 138. 25c.)

Insurance and Pensions

NEW BOOKS

MACKAY, G. R. and ACKERMAN, S. B., editors. *Cyclopedia of insurance in the United States.* 47th ed. (New York: Index Pub. Co. 1937. Pp. 840. $3.)

MAYER, M. *Workmen's compensation law in Louisiana: a case study.* Stud. no. 34. (Baton Rouge: Louisiana State Univ. Press. 1937. Pp. 253. $2.)

WYATT, B. E., and others. *The Social Security act in operation.* (Washington: Graphic Arts Press. 1937. Pp. 395. $3.50.)

The Association of Life Insurance Presidents: proceedings of the thirty-first annual convention, held in New York, December 2 and 3, 1937. (New York: Assoc. of Life Insur. Presidents. 1937. Pp. 254.)

New workmen's compensation law. (Harrisburg: Pennsylvania Labor and Industry Dept. 1937. Pp. 34.)

Occupational disease compensation law. (Harrisburg: Pennsylvania Labor and Industry Dept. 1937. Pp. 50.)

Workmen's compensation for silicosis in the Union of South Africa, Great Britain and Germany. Stud. and rep. ser. f, no. 16. (Geneva: Internat. Labour Office. 1937. Pp. 147. 3s. 6d.)

Pauperism, Charities, and Relief Measures

The Abolition of Poverty. By JAMES FORD and KATHERINE MORROW FORD. (New York: Macmillan. 1937. Pp. viii, 300. $2.50.)

The conclusions reached by Mr. and Mrs. Ford are similar to those reached by Professor Hollender in his book bearing the same title: if the

people of the United States desire it and are willing to bear the cost, poverty can be abolished. In spite of the vastly increased magnitude of the problem, the authors speak with greater assurance than Hollender did in 1914, not only of the possibility but of the "inevitability" of the desired outcome. Their assurance is based on the knowledge of the causes of poverty which lie back of the immediate occasion of distress and on observation of the restorative effects of skilled administration directed toward overcoming the causes, whether they lie in heredity, in specific handicaps, in personal incapacity, or in bad family or neighborhood conditions. There seems to be little tendency to place blame upon the unfortunate for his shiftlessness, improvidence, or other defect of character. "Personal incapacity—so far as it is a product of curable disease, ignorance, miseducation or poor moral training—can be progressively overcome, case by case, through individualized treatment and provision for adult education. It can be prevented in future generations by appropriate training." Hence the frequent insistence upon "research," "individualized aid," and the "advance of science" as applied to problems of poverty.

In a chapter on the five major hazards of life, an account is given of the piecemeal legislation dealing with accidents, sickness, unemployment, old-age, and death of the bread-winner. While the progress made in recent decades is commended, some impatience is expressed at the inadequacy of such legislation. The Social Security act of 1935 is given qualified approval. "The degree of security afforded by this Act is immeasurably greater than that obtainable by the worker prior to its passage." Some concern is expressed as to the policies which may be adopted under it that might affect adversely the national income by injuring "our financial and credit structure, frighten the investor, cramp the taxpayer," or discourage enterprise.

Although the distinction is made on the first page between poverty and dependency, the reader cannot but feel that the distinction is lost sight of throughout the first half of the book where the theme is essentially that of dependency. It is the field in which the findings of the authors, because of their special studies, have greatest weight. But to abolish poverty, the old piecemeal plans must give way to a concerted attack on many fronts. The theme of the second half of the book is the need of national economic planning for the abolition of poverty. The argument has been made familiar by repetition in high places and low: there is enough "wealth latent in America to eliminate poverty . . . if properly produced and distributed"; it is accumulated "at the expense of the consumer or of the worker or both"; if these and other evils are not remedied "within the present order," radical change may be expected. The communistic method of controlling economic forces is discarded as entailing "a long period of suffering and at the expense of democracy and liberty"; these have a better chance under state socialism arrived at by gradual "socializing of refractory industries"

where there is exploitation of their workers or consumers, "or other misbehavior. . . . Evolutionary state socialism is the only safe resort . . . in case poverty cannot be abolished under the existing social and industrial orders."

A thirteen-point program of primary importance for the end in view is proposed. Production must be increased by the elimination of waste and the better utilization of material and human resources, by the promotion of invention, and in many other ways. But there must be also a better distribution of income. Here some specific, though not novel procedures are suggested. The "recapture for the public treasury . . . (of) the excess in large fortunes" on the one hand and, on the other, more adequate remuneration of those with small incomes. What is meant by "excess in fortunes" is not clear, but the progressive income tax is the way to reach it. There should also be provision for "the social appropriation of certain increments to land value." For increasing the income of the underpaid, numerous devices are passed in review: the minimum wage, government subsidies to workers, the family allowance, rent subsidies, safeguards for workers as consumers. In the midst of these proposals to aid workers there is, almost incidentally, given a sketch of what laborers have done to help themselves through coöperation, at home and abroad.

Where there is so much interference with the market determination of income, some sort of formula seems to be required as to where the paring and piecing process is to come to rest. It is a weak spot in all collectivist philosophy and appears to be unsettled still in the Russian experiment. The Fords are not without a formula. They are not equalitarians. In discussing state socialism they say: "Ideally, each individual should receive that income which would make it possible for him and all members of his family to live on their most creative level."

A chapter is given to each of the three most tragic aspects of modern life: (1) unemployment, (2) the major disasters such as pestilence, conflagration, drouth, and the violent manifestations of the elements, and (3) war. All of these are prolific causes of poverty. When one contemplates the conditions which, as set forth, must be met if poverty is to be abolished, he cannot but admire the courage of those who, like the authors, labor to work out the way to the good economic life and so valiantly set out to achieve that end.

G. O. VIRTUE

University of Nebraska

NEW BOOKS

GILLIN, J. G. *Poverty and dependency: their relief and prevention.* 3rd ed. (New York: Appleton-Century. 1937. Pp. viii, 755.)

SCHNEIDER, M. G. *More security for old age: a report and a program.* (New York: Twentieth Century Fund. 1937. Pp. 204. $1.75.)

STEINBICKER, C. R. *Poor-relief in the sixteenth century.* (Washington: Catholic Univ. of America. 1937. Pp. 303. $2.)

WATSON, J. P. *Economic backgrounds of the relief problem.* (Pittsburgh: Univ. of Pittsburgh. 1937. Pp. xiii, 144.)

This volume presents data tending to show that even in years of normal business activity the loss of working time in the Pittsburgh district has amounted to about one-fourth of full time, and that in consequence the relief problem is always present. Estimates of the number of workers employed and of the extent of working time lost by employed workers are presented by months for the period 1929 to 1936. At the low point of the depression, estimated time worked was only 40 per cent of full time. These estimates are based primarily upon the April, 1930, census of unemployment, a special census of unemployment in Pennsylvania conducted as a relief project in 1934, and upon confidential reports of business activity in the Pittsburgh area made to the Bureau of Business Research.

There is no mention of the actual extent of relief or of the characteristics of persons receiving relief and no discussion of the local problems of relief administration. No use whatever is made of the mass of data included in the relief census of 1933, in the survey of *Urban Workers on Relief,* May, 1934 (WPA, Division of Social Research, research monograph iv, by G. L. Palmer and K. D. Wood), in the occupational inventory of workers on relief in March, 1935, or of the material in the files of WPA and of the local relief agencies. Nor are the records of the United States Employment Service drawn upon. There is no analysis of the increase in employment or of the decline in the numbers receiving relief. The final chapter entitled "Social policy toward relief" nevertheless comes to specific conclusions regarding the need for relief and the agencies which should finance and administer it. On the basis of data not included in the book, it is stated that relief must be continued and that both the federal and state governments must continue to bear the brunt of a burden which is not analyzed. It is concluded categorically, for example, that "The federal function of 'welfare' is a fact" (p. 107).

LINCOLN FAIRLEY

Socialism and Coöperative Enterprises

The Decline and Rise of the Consumer: A Philosophy of Consumer Co-operation. By HORACE M. KALLEN. (New York: Appleton-Century. 1936. Pp. xx, 484. $2.75.)

This philosophical and historical treatise aims to present the consuming interests as unifying and primary, and producing interests as divisive and secondary. Consumption is unifying because it is that which all persons have in common, though they receive their incomes from different sources. It is primary because men work to live rather than live to work. The development of these concepts is traced with genuine brilliance and learning, and the conclusion is drawn that the consumers' coöperative movement is the ideal form of social organization. Following Beatrice Webb, Dr. Kallen contrasts this movement favorably in comparison with producers' coöperation, which

generally does not succeed and when it does, commonly ceases to be coöperative. There can be little doubt that Charles Howarth's invention of the dividend on purchases furnishes an expansive and equalizing force which the dividend on wages in producers' coöperation does not provide. There can also be little doubt that with proper management, consumers' coöperation can effect real economies and permit democracy to be practised in economic affairs to a far greater degree than is now the case.

For a pragmatist, and for one who is properly concerned with maintaining the roots of sound individualism in American life, Dr. Kallen tends, however, unduly to minimize production and to slight the agricultural marketing coöperatives. The American farm bids fair to be conducted as an individual enterprise for many decades to come, and it is a worthy way of life to millions. Marketing coöperatives can help the farmers both economically and spiritually, and they have done so in the case of fruit, dairy products, wheat, cotton, etc. These coöperatives will probably increase in scope, and there is no need for them to be ironed out by a totalitarian philosophy of consumption such as that which Dr. Kallen comes close to expounding.

Moreover, in view of the head start of accumulated private savings, the inability of consumers' coöperation to enter the heavy goods industries, and the fact that even in the field of retail trade, the coöperatives have not been able to handle specialized and stylized goods with much success, there seems little promise of consumers' coöperation becoming by gradual evolution the one great economic institution which Dr. Kallen seems to desire. In an epilogue dated 2044, he prophesies that it will have come to its own through a world war in which other institutions break down. It is, of course, impossible to predict what will happen if such a catastrophe falls upon us. In my own judgment, what is much more likely to occur in such an event is for the power of the state over economic life to increase still further. It is more than doubtful if the state would wither away in the manner indicated above.

I would not regard it as proper to raise these issues in view of the present embryonic state of the consumers' coöperative movement in this country, did not Dr. Kallen in his philosophical discussion make them primary. But since he does, the interests of clear thinking and of the coöperative movement itself demand that they be examined. An eclectic and varied economic system would seem to be both more efficient and more rooted in the realities of American life. The scholar as well as the man of affairs has, however, much to learn from Dr. Kallen's insights and broad sweep of interests; and his style, though often unduly heavy and polyphonic, rises at times to genuine eloquence and true beauty.

PAUL H. DOUGLAS

University of Chicago

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FRIES, A. A. *Communism unmasked.* (Washington: Author, 3305 Woodley Rd. N.W. 1937. Pp. 204. $1.)

HALL, R. L. *Economic system in a socialist state.* (New York: Macmillan. 1937. Pp. 278. $2.75.)

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Statistics and Its Methods

National Income and Outlay. By Colin Clark. (London: Macmillan. 1937. Pp. xix, 304. $4.50.)

This volume constitutes an important addition to the slowly growing list of scholarly studies of the income of one or another of the nations of the world. In view of the fact that it presents the results of an investigation made by the author individually rather than by an organization, the work is decidedly comprehensive in scope. It covers for the United Kingdom a study of the numbers of employees and entrepreneurs, and also of persons available for employment but not at work; a classification of the unemployed by occupation; an estimate of "the whole national income"; an apportionment of the income total among wages, salaries, profits and interest, and rents; a classification of individual incomes by size; an analysis of public receipts and expenditures; an estimate of the total volume of saving; a verification of the national income totals by comparing estimates made respectively on the basis of consumption and on the basis of production; a conversion of the national income from the number of pounds sterling current in the various years into pounds of constant purchasing power; a year to year comparison of "average real labor cost per unit of production" in mining and manufacturing; and a discussion of the rate of economic progress. Since, in Britain as in the United States, the data required as a basis for these estimates must be gleaned from a great variety of sources, and since few of the basic figures really conform to the needs of the student of income, it takes a vast amount of effort to derive from them the quantities required to make up the estimates of national income.

With most of the author's statements concerning income concepts the reviewer finds himself in hearty accord. To one, however, he must take exception. Mr. Clark includes in the national income all receipts by the national or local governments from customs, excise duties, rates, and other indirect taxes. Mr. Clark recognizes the fact that such inclusion may seem absurd, but justifies it on the ground that "the effect of all indirect taxation is calculated to be a corresponding rise in the prices of the articles or services taxed. Real national income is calculated by dividing the money national income by an appropriate price index, and the price index is bound to incorporate the effects of changes in national and local indirect taxation." If Mr. Clark's premises are granted, his conclusion is inevitable. However, is it really true that indirect taxes raise the average of all prices? Do they not in many cases depress the prices paid to producers for the taxed articles? Does not the payment of the indirect taxes reduce the ability of the taxpaying public to buy other goods, and does not this reduction weaken demand and thus tend to make prices in general lower? Is it, therefore, not probable that the net effect of indirect taxation upon the price level is nil? If such is

the case, the author appears to have overestimated the total national income by the amount of the indirect taxes.

Mr. Clark's style of exposition is extremely condensed and his references are relatively few, hence one must take largely on faith the figures presented. However, his discussion of the points considered, the obstacles to be overcome, and the reasons for differences between his estimates and those of other students of the subject give every indication that the author is a thorough scholar and has performed his task in a workmanlike manner.

Some of Mr. Clark's findings concerning the income of the people of the United Kingdom are worth noting. As in the United States, the percentage of the total income going to wages and salaries remained remarkably stable between 1924 and 1935, being affected but little by shifts from prosperity to depression or the reverse. The aging of the population is increasing the proportion of males gainfully occupied. In terms of 1913 prices, *per capita* income in England rose from around £29 in 1688 to £51 in 1913. The major part of this increase apparently occurred between 1866 and 1913, improvements during this period raising by 68 per cent the income of the average person at work. Since 1913, real income per person at work has increased about 25 per cent, but because of the large number of potential workers idle and supported at public expense, the average real income of potential and actual workers combined has risen by little more than 10 per cent. In considering changes in *per capita* income, it is, of course, necessary to keep in mind the fact that adults now form a proportion of the population greater than in earlier years, and that average weekly working time is now probably not much more than half as great as it was a century or two ago.

In chapter 12, Mr. Clark presents data which show that fluctuations in the volume of investment are closely correlated with the national income, and that the volume of investment is determined by the following ratio

$$\frac{\text{Present rate of profit per unit of output}}{\text{Price of capital equipment } X \text{ Rate of interest}}$$

In the United Kingdom during the last few years, "impersonal saving through undistributed company profits and local-authority sinking funds [have] accounted for the greater part of the observed total of investment, . . . private savings by the rich [having] altogether disappeared or even become negative."

In view of the high quality of the work here reviewed, the author's promised comparisons of national incomes in various countries will be awaited with interest.

WILLFORD I. KING

New York University

NEW BOOKS

DALMULDER, J. J. J. *On econometrics: some suggestions concerning the method of econometrics and its application to studies regarding the influence of rationalisation on employment in the U.S.A.* (Haarlem: Netherlands Econ. Inst. 1937. Pp. 88. F. 2.50.)

In this study, Dr. Dalmulder has erected a simplified dynamic model of economic activity and has "applied" it, by the customary technique of time-series analysis, correlation, lag coefficients, etc., to data drawn from the United States, 1921-1931. Excellent "fits" are obtained—for example, 18-month cycles are "discovered" in the Cowles Commission data and are "explained" by the model. Once again the economist is confronted with a dynamic model which when draped with appropriate data is found to rationalize the data in the sense of being consistent to a very high degree.

Dr. Dalmulder has carried out the simple mathematical analysis in a careful manner and has handled the statistical work with competence. He deserves especial praise; for, contrary to many model builders, he has devoted almost one-half of his study to the problems of econometric methodology and has sought to discover, to limit and to classify sensibly those elements of our economic life which must be considered in any satisfactory dynamic model. But despite this introduction, it is still difficult to appraise the position of these schema in the general setting of business-cycle theory. Beginning long ago with crude sun-spot models we have advanced, particularly in recent years, to reasonable and ingenious dynamic models, involving from a few to dozens of equations and unknowns, the common attribute of all these systems apparently being that they fit the relevant data. With this movement in mathematical-statistical economics, the names of some of the world's leading economic theorists are associated—Kalecki, Frisch, Tinbergen, Lundberg, Slutsky and now Dalmulder. There can be little question but that our best theorists are behind this method. But the bothersome matter is that it appears to be impossible to refute by these methods the foundations on which any half-reasonable model rests; for with the current statistical apparatus, particularly with the use of lags and sequences, high correlations may be found for each of a number of systems even though the underpinnings of these systems are mutually conflicting.

H. A. FREEMAN

DAVENPORT, D. H. and SCOTT, F. V. *An index to business indices.* (Chicago: Business Pubs. 1937. Pp. viii, 187. $3.)

DAVIES, G. R. and YODER, D. *Business statistics.* (New York: Wiley. 1937. Pp. vii, 548. $3.50.)

This book is no mere revision of Davies and Crowder, *Methods of Statistical Analysis* (Wiley, 1933), although naturally there are some resemblances. The proportionate emphasis placed on presentation, on seasonal variation, on correlation, and on statistical reliability is substantially increased. The method of appending a discussion of more complicated statistical methods to each chapter is discarded. A valuable set of appendix notes at the end of the book is somewhat comparable to the "mathematical notes" in the earlier book, although much of the material is new. The readability is improved, but at some sacrifice in direct presentation of mathematically difficult techniques. Difficult problems, however, are never avoided; and frank statements regarding our ignorance are sometimes made.

The chapter on reliability and significance brings together statistical examples of techniques which have been available only in scattered sources. The discussion on curvilinear correlation, both for two and for a multiple number of variables, is more complete than that which is available in any other elementary text known to the reviewer, and it will be found surprisingly simple. The authors have done very well throughout in incorporating recently improved statistical techniques.

The reader will not be misled by the authors' statements in the preface that "primary emphasis is placed upon explanation and illustration of method," and that "it is to be hoped that a comprehensive understanding of the limitations of statistical method will be provided by subsequent excursions into the field." The teacher of statistical method may wonder whether several of the statistical examples will be readily understood by the beginning student, although the reviewer finds that the form of presentation is admirable from the reference point of view.

ELMER C. BRATT

MENDERSHAUSEN, H. *Les variations du mouvement saisonnier dans l'industrie de la construction: étude méthodologique et analyse des faits.* (Geneva: Georg. 1937. Pp. 209. 6 fr. suisses.)

This book is an exposition of a new method of computing and eliminating seasonal variations, dealing particularly with the problem of their irregularity. The type of analysis used is first to establish on general grounds what are the main causes of the irregularities, and then to measure the influence of each of the causes by the technique of multiple correlation. The regression coefficients which are obtained are then used to determine the normal seasonal movements which might be expected for each year, and these are then eliminated from the original series.

By choosing the building industries of a number of European countries for analysis M. Mendershausen is able somewhat to reduce the dangers involved in applying correlation methods to economic time series, since one of his main variables is temperature. He further reduces the dangers by his extremely thorough economic analysis of all the possible causes of variation which precedes his actual statistical work. As a study in methodology this book deserves the highest praise, and sets a standard which many economic statisticians would do well to follow.

On matters of statistical technique doubts might be raised regarding the applicability of the usual significance tests to some of the time series, and also regarding the interdependence of some of the variables. M. Mendershausen is fully aware of these difficulties and is careful to emphasize the provisional character of his results. A more serious objection to his method of determining variable seasonal normals is the large amount of statistical calculation which the multiple correlation technique involves as compared with simpler methods. Nevertheless, M. Mendershausen's work is a notable advance in an important type of analysis which in course of time is likely to be extended to other problems in the field of applied economics. The book contains a useful bibliography of books and articles on the various problems which are raised.

E. A. RADICE

MODLEY, R. *How to use pictorial statistics.* (New York: Harper. 1937. Pp. xviii, 170. $3.)

SLAUGHTER, J. A. *Income received in the various states, 1929-1935.* Stud. no. 234. (New York: Nat. Industrial Conf. Board. 1937. Pp. xv, 167. $3.50.)

This is one of a recent series of income studies made under the direction of the National Industrial Conference Board. The estimates are confined to realized income and have been broken down by states, by types of income and by origins.

Since there is no comprehensive accounting of income in the United States, it was necessary to estimate the amount of the income by collecting and analyzing data from numerous sources. Practically every source of information reliable enough to increase the accuracy of the estimates in general was tapped. Differences of opinion may develop regarding the desirability of including some of the items that have been used, but these differences of opinion will be concerned with items that are, in the main, relatively small. The individuals responsible for the compilation of the data were aware of the probable inaccuracies and have taken pains to post adequate warnings for the unwary.

Anyone interested, either in the cross-currents in the streams of income appearing in a major business cycle or in the details of income origins and flows will find here a rich source of information. E. B. DADE

STAMP, J. *The national capital and other statistical studies.* (London: P. S. King. 1937. Pp. vii, 299. 10s. 6d.)

VINCI, F. *Manuale di statistica: introduzione allo studio quantitativo dei fatti sociali.* 2nd ed. vol. ii. (Bologna: Zanichelli. 1937. Pp. 353. L. 40.)

ZIZEK, F. *Wie statistische Zahlen entstehen: die entscheidenden methodischen Vorgänge.* (Leipzig: Buske. 1937. Pp. 151. RM. 4.50.)

This pamphlet is not, as its title (How statistical numbers arise) might suggest, a description of the agencies and methods whereby statistics are gathered and compiled in Germany. It is, rather, an effort to analyze and state in systematic form and in general terms the distinctive characteristics of the process. The author discusses the underlying nature of a statistical inquiry under its three aspects—the *object* (statistical masses or populations), the *purpose,* and the *method.* He devotes considerable space to a thorough analysis of the steps in an inquiry—defining the unit, determining the characteristics, classification, and summarizing by use of totals, ratios, or averages. Professor Zizek's interest in "fundamental theoretical principles" involves establishing a dualism as between, on the one hand, "external" processes and, on the other hand, the related logical decisions (p. 93). The decisive rôle of the planning controlling statistician is emphasized.

Much of the text strikes the reviewer as an unnecessary and unprofitable elaboration. However, we can never have too much emphasis on the point that sound statistics require *intellectual* effort in clarifying the purpose and fitting means to ends, or on the correlative point that data have meaning only in the light of the processes whereby they were obtained. The effect of the monograph in this direction is probably its chief value to American readers.

CLARA ELIOT

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DOCUMENTS, REPORTS, AND LEGISLATION

Industries and Commerce

The federal Department of Commerce has published in the Trade Information Series Bulletin No. 292 (revised), *Sources of Foreign Credit Information,* sixth revision, 1937 (pp. 52, 10c.); No. 838, *Advertising in Brazil,* by J. W. Inves (pp. 32, 10c.).

In the Trade Promotion Series of the federal Department of Commerce have appeared No. 172, *Foreign Graphic Arts Industries: World Markets for Printing Machinery, Equipment and Supplies,* prepared in the Specialties, Machinery, Chemical, and Forest Products Divisions (pp. 382, 35c.); No. 173, *The Latin American Glass Industry and Trade,* by E. J. Detgen (pp. 81, 10c.).

In the Market Research Series of the federal Department of Commerce has appeared No. 6, *Check Sheet: Introduction of New Industrial Products* (revised) (pp. 53, 10c.).

Labor

The Bureau of Labor Statistics of the federal Department of Labor has issued Bulletin No. 630, *Laws Relating to Employment Agencies in the United States as of July 1, 1937* (pp. 239, 25c.).

The *Review* has received from A. W. von Struve, chief of the Periodicals Section of the Works Progress Administration (1734 New York Ave., N.W., Washington, D.C.) a mimeographed document entitled *A Survey of Relief and Security Programs,* prepared by Arthur E. Burns and Edward A. Williams. This material embodies a comprehensive review of relief activities since 1933. It outlines conditions which prevailed and methods which were pursued prior to the inauguration of the Federal Relief Program which saw its beginning with the Federal Emergency Relief Administration and the Civil Works Administration.

Public Finance

The Province of Manitoba has published *Manitoba's Case: A Submission Presented to the Royal Commission on Dominion-Provincial Relations by the Government of the Province of Manitoba,* Parts I-IX. Part III deals with *The Effects of Federal Monetary Policy on Western Canadian Economy;* Part IV, *The Effects of Federal Tariff Policy on Western Canadian Economy;* Part V, *The Effects of Declining Income;* Part VII, *Analysis of Manitoba's Treasury Problem.* Professors Alvin H. Hansen and Jacob Viner served as consulting economists.

NOTES

The Nominating Committee of the AMERICAN ECONOMIC ASSOCIATION has been appointed: Alvin Johnson, New School for Social Research, chairman; James W. Angell, Columbia University; Frank D. Graham, Princeton University; Bernard F. Haley, Stanford University; Calvin B. Hoover, Duke University; Ray B. Westerfield, Yale University; Edwin E. Witte, University of Wisconsin. Members are invited to send to the committee the names of persons whom they would like to have considered for the elective offices—president, first vice-president, second vice-president and two members of the Executive Committee.

Professors Arthur R. Burns of Columbia University and Bernard F. Haley of Stanford University have been appointed editors of the REVIEW to succeed Professors Clarence E. Ayres and Morris A. Copeland, whose terms expired. Professor Fritz Machlup of the University of Buffalo has been appointed an editor in place of Professor Edward H. Chamberlin of Harvard University, who resigned from the editorial board of the REVIEW because of his appointment as a member of the committee to edit the *Quarterly Journal of Economics.*

The following names have been added to the membership of the AMERICAN ECONOMIC ASSOCIATION since November 1:

Abel-Musgrave, R., 117 Fresh Pond Parkway, Cambridge, Mass.
Baer, W. N., 525 May St., De Land, Fla.
Ballinger, W. J., 3133 Connecticut Ave., Washington, D.C.
Beisel, A. R., Jr., 435 W. 119th St., New York City.
Bender, W. C., University of Notre Dame, Notre Dame, Ind.
Biscoe, A. B., 114 S. Fourth St., Lewisburg, Pa.
Bock, B., 21 Clarendon Pl., Buffalo, N.Y.
Bothwell, W. C., Dept. of Econ., Washington University, St. Louis, Mo.
Braden, S. E., Dept. of Econ., Indiana University, Bloomington, Ind.
Burk, A., 2 Scott St., Cambridge, Mass.
Burns, A. E., 6521 32nd St., N.W., Washington, D.C.
Burnstan, R., Carleton College, Northfield, Minn.
Cadman, J. W., Jr., 37 Palmer Sq., W., Princeton, N.J.
Cale, E. G., 390 Audubon St., New Orleans, La.
Campbell, F. N., 2953 McKinley St., Washington, D.C.
Carney, J. J., Jr., 219 Commerce, University of Illinois, Urbana, Ill.
Castro-Barberena, M. de, 1234 Broadway, New York City.
Chrysler, R. L., 1340 12 Ave., N., Fargo, N.D.
Compter, H. L., 1205 Post Rd., Scarsdale, N.Y.
Conwell, R. E., Dept. of Econ. and Soc., University of Wyoming, Laramie, Wyo.
Cronin, J. A., Spring Hill College, Mobile, Ala.
Dauer, E., Div. of Res. Stat., Federal Deposit Insur. Corp., Washington, D.C.
Davis, P., 24 Sacramento St., Cambridge, Mass.
Doering, E. R., 1139 Arrott St., Frankford, Philadelphia, Pa.
Douglas, G. A., 301 College Pl., Frederick, Md.
Ellis, P. W., 2535 E. Nob Hill St., Salem, Ore.
Engstrom, B., 1212 Trevanion St., Pittsburgh (18), Pa.
Fields, C. R., Georgetown College, Georgetown, Ky.
Finney, H. A., 208 S. La Salle St., Chicago, Ill.
Fisher, A. J., American University, Washington, D.C.
Futrell, W. H., 201 Varick St., New York City.
Gale, H. R., 1775 Hill Dr., Eagle Rock, Los Angeles, Calif.
Gamm, S., 635 W. 115th St., New York City.
Geeting, R. E., Bethel College, Bethel College, Kan.
Gilboy, E. W., 40 Holyoke House, Cambridge, Mass.
Ginzburg, B., 3500 14th St., N.W., Washington, D.C.
Glaser, E., 1102 16th St., N.W., Washington, D.C.

Goeltz, J. D., 333 Ayres Hall, University of Tennessee, Knoxville, Tenn.
Gold, B., 1460 Vyse Ave., Bronx, New York City.
Goldwasser, B. C., 1102 16th St., N.W., Washington, D.C.
Goodbar, J. E., Society for Stability in Money and Banking, Inc., 36 W. 44th St., New York City.
Harriss, C. L., 5532 Kenwood, Chicago, Ill.
Heidingsfield, M., 302 W. 79th St., New York City.
Houchins, J. R., 618 R St., N.W., Washington, D.C.
Irons, W. H., University of Texas, Austin, Tex.
Jesse, H. C., 49 Wall St., New York City.
Kalb, J., 111 Broadway, Room 1400, New York City.
Kane, J. S., 4062 Gleane St., Elmhurst, L.I., N.Y.
Kaufman, A., 810 Hunts Point Ave., New York City.
Keener, J. W., 329 Crestwood Ave., Akron, Ohio.
Knipe, J. L., 89 Killdeer Rd., Hamden, Conn.
Kohlerman, J. H., 302 W. 12th St., New York City.
Ledig, A. K., 6910 Heyward St., Philadelphia, Pa.
Leffler, G. L., Pennsylvania State College, State College, Pa.
Lemon, T. A., Dept. of Econ., State Teachers College, Cheyney, Pa.
Leontief, W. W., 16 Kirkland Rd., Cambridge, Mass.
McGregor, H. E., University of North Dakota, Grand Forks, N.D.
Martin, M. E., 53 W. St., Northampton, Mass.
Mayer, L. K., 215 Middle Neck Rd., Great Neck, L.I., N.Y.
Mooney, J. D., 1775 Broadway, New York City.
Moore, H. B., College of Commerce, University of Kentucky, Lexington, Ky.
Morson, W. T., Box 13, Atlantic Beach, N.Y.
Nordstrom, O. L., Augustana College, Rock Island, Ill.
Olson, A. L., 2523½ Collis Ave., 1, Huntington, W.Va.
Phelps, V. L., 1725 New Hampshire Ave., N.W., Washington, D.C.
Poole, K. E., F 25 Winthrop House, Cambridge, Mass.
Potter, H., Dept. of Econ., Wells College, Aurora, N.Y.
Randall, E. F., 1028 Connecticut Ave., Washington, D.C.
Read, L. E., 433 California St., San Francisco, Calif.
Redden, E., Goucher College, Baltimore, Md.
Reece, B. C., House of Representatives, Washington, D.C.
Reynolds, L. G., 41 Wendell St., Cambridge, Mass.
Robb, W. C., College of Commerce, University of Illinois, Urbana, Ill.
Roberts, W., Cleveland College, Western Reserve University, Cleveland, Ohio.
Rogoff, E., 106 Keap St., Brooklyn, N.Y.
Ross, S. B., Carnegie Institute of Technology, Schenley Park, Pittsburgh, Pa.
Ruhmer, O. E. M., 39 Lenox Rd., Brooklyn, N.Y.
Saks, J. I., 445 W. Gilman St., Madison, Wis.
Selbert, Mrs. F. F., 10525 Carnegie Ave., Cleveland, Ohio.
Shields, H. G., School of Business and Secretarial Studies, Simmons College, Boston, Mass.
Shih, C. T., 214 S. 37th St., Philadelphia, Pa.
Shlakman, V., Sweet Briar College, Sweet Briar, Va.
Short, O. C., Room 5802, Dept. of Commerce, Washington, D.C.
Silverstrand, C. F., Hastings College, Hastings, Neb.
Slesinger, R. E., 5419 North Umberland St., Pittsburgh, Pa.
Snyder, E. M., 154 Calhoun Ave., New Rochelle, N.Y.
Snyder, I. V., 611 N. Sluss Ave., Bloomington, Ind.
Sogge, T. M., 3322 Dupont Ave., S., Minneapolis, Minn.
Sollohub, W. A., 12 Boulevard de la Madeleine, Paris 9, France.
Stewart, E. R., West Virginia University, Morgantown, W.Va.
Tarshis, L. 65 Langdon St., Cambridge, Mass.
Terpenning, W. A., Albion College, Albion, Mich.
Thorne, Mrs. A. C., College Station, Tex.
Tollefson, R., Ashby, Minn.
Van Kirk, J. C., College of Commerce, Tulane University, New Orleans, La.
Victory, J. E., 2680 Yale Station, New Haven, Conn.
Vining, R., Westminster College, Fulton, Mo.
Vom Saal, R. E., The Travelers, 100 E. 42nd St., New York City.
Walsh, C. J., Fordham University, New York City.
Weller, O. A., Public Service Co. of Colorado, Denver, Colo.
Wenzlick, R., 915 Olive St., St. Louis, Mo.

Wheeler, B. O., Dept. of Econ., Oregon State College, Corvallis, Ore.
Willett, E. F., 14 Murray Pl., Princeton, N.J.
Williams, K. B., 2145 C St., N.W., Washington, D.C.
Woerner, K., Rose Tree Rd., R.F.D. 1, Media, Pa.
Wollman, N., 21 Marlborough Rd., Upper Darby, Pa.
Wunderlich, F., 66 W. 12th, New York City.

The fourth annual conference on business and government in New Mexico was held at the University of New Mexico, December 3-4, 1937. Among the papers given were "Fair Trade Practices," by Karl E. Ashburn, "Regulation of Transportation," by E. R. Collins, "Regulation in the Livestock Industry," by A. D. Brownfield, "Some of the Problems and Effects on Business of the Undistributed Profits Tax," by J. B. Stephenson. These papers were published in the January issue of the *New Mexico Business Review*.

The sixteenth annual conference of the Pacific Coast Economic Association was held at Pomona College, December 28-30, 1937. Among the papers presented were "Competitive Rate Problems in California," by Ford K. Edwards, "Migration into the Pacific Northwest and Social Planning," by Vernon Mund, "Recent Changes in the Savings-Investment Approach to Business Cycle Analysis," by Karl Bode.

At the meetings of the Louisiana Bankers' Association, held at the College of Commerce, Louisiana State University, January 26-28, papers were presented on "Trends in Louisiana Banking for Past Ten Years," by M. H. Hornbeak, Louisiana State University, "State and Municipal Bonds," by Lawrence R. Lunden, University of Minnesota, "Economic Laws and Statute Laws," by H. L. McCracken, Louisiana State University.

The annual meeting of the Mid-West Economics Association will be held at Davenport, Iowa, April 14-16. Officers of the Association are president, J. A. Estey, Purdue University, vice-president, John Ise, University of Kansas, secretary-treasurer, T. W. Schultz, Iowa State College.

The Summer Institute for Social Progress will be held at Wellesley College, July 9-23. The head of the faculty is to be Dr. John Stewart Burgess of the Department of Sociology at Temple University.

The fifth annual conference on business education will be held at the School of Business of the University of Chicago, June 30-July 1. The general theme will be "Business as a Social Institution."

The Simon J. Lubin Society of California is publishing a bulletin entitled *Rural Observer*. Copies may be obtained by addressing Room 317, 83 McAllister St., San Francisco.

The Bibliographical Society of America contemplates expanding the "Notes and Queries" section of its *News Sheet* to include as far as possible notices of all bibliographies planned or in process of compilation by members of the constituent societies of the American Council of Learned Societies and of other American scholars. Notes for publication in the *News Sheet* may be addressed to Henry B. Van Hoesen, secretary, Brown University Library.

The Colonial Institute of Amsterdam in collaboration with the Netherlands Pacific Institute began the publication of a *Bulletin* under date of November, 1937. The first number included an article on "The Budget of the Netherlands

Indies" by J. Hardeman. Correspondence should be directed to the editor of the *Bulletin*, Koloniaal Instituut, 63 Mauritskade, Amsterdam, O. Holland.

The Cowles Commission for Research in Economics has published the report of the third annual research conference on economics and statistics, held June 28-July 23, 1937 (Colorado Springs, Colorado).

The proceedings of the nineteenth annual meeting of the American Association of Collegiate Schools of Business, held at Louisiana State University, March 22-24, 1937, have been printed, and copies may be obtained from Charles C. Fichtner, secretary, University of Arkansas, Fayetteville, Arkansas, at a price of $1.25.

The Department of Economics of Massachusetts State College, Amherst, Massachusetts, has published a *Directory of Governmental Officials' Associations and Research Organizations in New England*, compiled by Charles J. Rohr (mimeographed, pp. 11).

Professor Braesch of the University of Nancy is seeking further subscriptions for *Finances et Monnaie Révolutionnaires*. Three separate installments have thus far come out; but more copies must be sold in order to cover the cost of further printing. The aim of this work is to relate the history of the monetary crisis which was the outcome of the French Revolution. Thus far the publication covers the years 1788-1791, making use of Treasury accounts, balance sheets of the Caisse de l'Extraordinaire, reports and official statements of the Ministers of Finance. Information can be had from Dr. F. Braesch, Librairie du Recueil Sirey, 22 rue Soufflot, Paris.

The Division of Historical Research of the Carnegie Institution of Washington has published the *List of Doctoral Dissertations in History now in Progress at American Universities, December, 1937*, compiled and edited by Margaret Willgoose Harrison. The pamphlet is available to educational institutions, libraries and periodicals in the field of history.

The Permanent Committee of the International Institute of Agriculture (Rome) will appoint an economist as assistant to the Secretary-General, for the purpose of aiding in the publications of an economic character. The languages of the Institute publications are French and English. Applications for the position should be addressed to the Secretary-General, Villa Umberto I, Rome and should be received before April 15, 1938.

Brookings Institution: The following persons have recently been added to the staff: Harry Conover, formerly instructor at the University of California and more recently associated with the National Survey Project; Paul Homan, on leave of absence from Cornell University; John McClelland, for the past year associated with the National Survey Project; and Victor Perlo, formerly associated with the Federal Home Loan Bank Board.

Emilie J. Hutchinson, head of the department of economics and social science at Barnard College, died January 12, 1938.

Harry Edward Miller, professor of political economy at Brown University, died November 14, 1937.

Appointments and Resignations

An error was made in the December issue (page 880) in stating that James A. Ross is assistant professor and head of the department of economics at

Syracuse University. Mr. Ross is not the head of the department; and Professor T. W. B. Crafer continues his service in that capacity.

O. Robert Anderson of the University of Washington is an instructor in accounting at the University of Oregon.

Elizabeth F. Baker is acting chairman of the department of economics and sociology at Barnard College, following the death of Professor Emilie J. Hutchinson.

Herbert von Beckerath, who has been giving courses in the department of economics at Duke University during the first semester of the academic year, teaches during the remainder of the year in the department of economics at the University of North Carolina.

T. C. Bigham of the University of Florida was elected president of the Southern Economic Association at the annual meeting held in Knoxville in November, 1937.

Henry J. Bittermann has been promoted to the rank of associate professor of economics at Ohio State University.

J. Russell Boner (and not J. R. Bowen as printed in the December issue, p. 871) is instructor in economics at the University of Alabama.

J. Douglas Brown, professor of economics at Princeton University, was elected chairman of the Advisory Council on Social Security at the first meeting of the Council in November, 1937.

William Adams Brown, Jr., associate professor of economics at Brown University, is on sabbatical leave during the second semester of the present academic year.

Alfred G. Buehler of the University of Vermont is a visiting professor at the University of Pennsylvania during the second semester of the present academic year. He is offering courses in public finance.

John R. Commons of the University of Wisconsin will give a course at that university during the summer session in which he will lecture on value with reference to institutional economics and with special application to present unsettled economic problems.

C. Sidney Cottle of Stanford University is teaching courses in economics and business administration at the University of New Mexico during the second semester of the present academic year, taking the place of Walter B. McFarland.

Carl F. Distelhorst has resigned as instructor in accounting at the University of Pittsburgh to accept a position with the Federal Home Loan Bank of Pittsburgh.

Paul T. Ellsworth of the University of Cincinnati will serve as a member of the summer session faculty at the University of California at Berkeley.

Donald M. Erb of the department of economics at Stanford University has been appointed president of the University of Oregon, to take up his new duties in March, 1938.

Martin G. Glaeser, who has been on leave of absence for a year and a half from the University of Wisconsin in order to act as chief planning engineer for the Tennessee Valley Authority, returns to Wisconsin for the second semester.

Eneas B. Goodwin, head of the department of economics at Loyola University, Chicago, has been promoted from associate professor to professor of ecnomics.

E. T. Grether is on sabbatical leave from the University of California at Berkeley to complete his study of fair trade legislation.

William Haber, professor of economics in the Institute of Public and Social Administration and in the department of economics at the University of Michigan, has been attached to the special Commission on Taxation and Public Expenditures in Massachusetts as technical consultant on the administration of public welfare and unemployment insurance.

Oscar E. Heskin, formerly of the University of Minnesota, is assistant professor of economics and marketing at the University of Florida.

Stanley E. Howard, chairman of the department of economics and social institutions at Princeton University, has geen granted leave of absence for the first term of the next academic year.

Richard B. Johnson is instructor of economics in the College of Business Administration of the University of Arkansas.

Harold J. King has been appointed instructor in accounting in the School of Business Administration at the University of Pittsburgh.

Neil R. Knight, formerly of the University of Washington, is now chief of the Research and Statistical Department of the Unemployment Compensation Division of the State of Washington at Olympia, Washington.

Oskar Lange is a lecturer in economics at the University of California, Berkeley, for the year 1937-38.

A. P. Lerner is a lecturer in economics at the University of California, Berkeley, for the spring semester.

Edward Stephan Lynch, instructor in economics at Princeton University, is conducting a course in labor problems at the University College of Rutgers University.

Walter B. McFarland is on leave of absence from the University of New Mexico.

H. H. Maynard of Ohio State University will offer courses in marketing at the University of Pennsylvania during the summer session of 1938.

George M. Modlin, assistant professor in economics at Princeton University, is conducting a course in economic principles at the University College of Rutgers University.

Grover A. J. Noetzel, formerly instructor in economics at the University of Wisconsin and Social Science Research Council fellow in Europe during 1936-37, has been appointed assistant professor in economics at Temple University.

Richards C. Osborn of the University of Illinois has been appointed instructor in economics at Beloit College.

Lester Virgil Plum, instructor in economics at Princeton University, is conducting courses in money and banking and in investment analysis at the University College of Rutgers University.

Alan Pope of Columbia University will fill the temporary one-semester appointment as instructor in the department of economics at the University of Vermont.

T. Bruce Robb, chairman of the department of business research at the University of Nebraska, who has been on leave of absence for a year, has resigned his post in the University in order to become head of the Division of Statistics of the Federal Reserve Bank of Kansas City.

Leo Rogin is on leave from the University of California, Berkeley, for the year 1937-38, and is on the research staff of the WPA.

Frank A. Ross has transferred to Syracuse University from Columbia University.

Kenneth W. Rowe, formerly director of the Bureau of Public Welfare of Denver, Colorado, is now state director of the Colorado National Youth Administration.

R. Henry Rowntree of Ohio State University is in the Division of Economic Research of the Bureau of Foreign and Domestic Commerce for the winter and spring quarters of 1938.

Fayette Shaw, instructor in economics in Beloit College, has resigned to accept a position in the University of Toledo.

H. G. Shields, professor of business economics and director of business education at Simmons College, Boston, has resigned to accept an appointment as associate professor of business education in the School of Business at the University of Chicago.

W. A. Spurr will carry on the work of Dr. T. Bruce Robb at the University of Nebraska.

Robert Steiner, formerly of the University of Washington, is an instructor in accounting at Oregon State College.

J. Wilner Sundelson of the department of economics at Rutgers University has been appointed to the Division of the Budget, Executive Department, New York State, to study tax revenues.

B. E. L. Timmons, instructor in economics at the University of Georgia, has been elected a Rhodes Scholar for the coming year.

Vaso Trivanovitch, chief of the Department of International Affairs with the National Industrial Conference Board, has returned from Europe, where he was engaged in a study of collectivist government with special relation to its economic aspects in Russia and Italy.

F. W. Tuttle of the University of Florida will teach economics at West Virginia University during the second summer term of 1938.

Edward Francis Willett is an instructor in the department of economics and social institutions at Princeton University.